

**A PUBLIC CHOICE PERSPECTIVE  
ON APARTHEID  
AND THE POST-APARTHEID  
POLITICAL ECONOMY**

by  
**CHRISTOPHER LINGLE**

**ERU**



**Occasional Paper No. 21**

**Economic Research Unit  
University of Natal, Durban  
1989**

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## SUMMARY

This paper attempts to redirect the discussion on the nature and causes of apartheid. The inadequacies of the liberal-radical debate point to a need for a broader model to explain the nature of institutions which are the outcome of decisions made by rational, self-seeking individuals.

The radical-Marxian position claims to provide a comprehensive analysis of the determinants and consequences of apartheid. However, a monocausal focus upon capital as the source of exploitation results in a defect in its explanatory power. For example, the radical-Marxian model is incapable of explaining the capturing of resources through the manipulation of the State by other interest groups.

The liberal argument is unconvincing in its attempts to de-couple apartheid from capitalism by claiming that apartheid is an irrational institution, opposed by capitalists who were captives of political pressures. Claims that apartheid will be undermined by long-run adjustments of a freely functioning market find little currency in a society which is overripe for change.

Public choice analysis is applied to broaden the understanding of interest-group behaviour and apartheid. In this context, the State is viewed as the focal point for the supply and demand of monopoly rights. Pursuit of political support to secure these rights is identified as rent-seeking. In the South African context, historically determined institutions and attitudes about State control are seen as co-determinants of an environment conducive to rent-seeking.

Attempts by Afrikaner politicians to consolidate power generated two outcomes. First, nationalistic hegemony was required in order to amalgamate support among Afrikaners. Second, they sought legitimation by a system of rules which legislated racial monopoly privileges. Monopoly rights provide the means for creating racial as well as economic cartels. In this sense, apartheid is seen as a peculiar type of monopoly grant.

One of the more interesting suggestions drawn from interest-group and rent-seeking analysis is that, unless the institutional structures within the State are changed, the problem of social waste from contrived monopoly rights will be continued in a post-apartheid framework. Thus, the proposed analysis provides an alternative, non-Marxian model which bears consideration by 'progressive' and radical critics of the current regime.

Some sections of the paper, especially Section 2, may be difficult for the non-specialist to follow. It is for this reason that a glossary of technical terms has been included. Moreover, some technical aspects relating to Section 4 have been transferred to Appendices A and B.

## GLOSSARY OF TECHNICAL TERMS

**Collective action problem:** where the average expected value of a feasible cooperative game exceeds the average expected value of individualistic action (see Prisoner's Dilemma game).

**Constitutional political economy:** the economic theory of the rules and institutions governing political and economic processes.

**Epistemology:** theory of the method or grounds of knowledge.

**Equilibrium:** a state from which no player has an individual incentive to depart.

**Externality:** a benefit or cost captured or suffered as a consequence of other decision.

**Free riding:** receiving without paying; when the action/inaction of the individual has little impact upon a collective effort, there is a tendency to opt out of bearing the costs of a group activity when there is no possibility from being excluded from the benefits.

**Forced riding:** paying without receiving.

**Government (public policy) failure:** occurs when the actual outcome of government processes fails to approximate the ideal outcome.

**Interest group theory of government:** an approach based upon the empirical observation of failure of government attempts to correct 'market failures'; scientific based understanding of how government agents function under various institutional arrangements; assertion of symmetry of postulate of self-interested behaviour in both market and non-market setting; due to pressures of elections within representative democracy, public officials are apt to be manipulated by special-interest groups (lobbies)

**Market Failure:** occurs when the actual outcome of market processes fails to approximate the ideal outcome.

**Negative-sum game:** a game where summed payoffs at the end-game point are less than those at the pre-game point.

**Ontology:** branch of metaphysics (the philosophy of being) dealing with the nature of being.

**Pareto criterion:** the criterion according to which situation A is judged better than situation B if, and only if, nobody is made worse off and at least one person is made better off by the move from B to A.

**Pareto optimum:** a situation in which nobody can be made better off without at least one person being made worse off.

**Payoff:** the net benefit a player gets from a given outcome in a game.

**Prisoner's Dilemma game:** a collective action game in which each player orders the outcomes: (1) I defect, you cooperate; (2) we both cooperate; (3) we both defect; (4) I cooperate, you defect. The implication of such a situation is that cooperation and collective yield better (Pareto optimum) results than individual action.

**Private good:** a good which is individually produced and consumed, whose consumption by one person prevents it from being consumed by another and on which it is impossible to free-ride.

**Public good:** a good which is jointly produced and consumed, not subject to crowding, and from which it is impossible to exclude free-riders.

**Public Choice:** economic analysis of the means and ends of collective choice processes within a non-market setting; a perspective derived from a change in focus from **allocation** to **exchange** as the central problem of economics, i.e., politics and the development of constitutional (social) contracts are the outcome of voluntary agreement among individuals.

**Public interest** theory of government: view of government which assumes away self-interested behaviour of public officials so that their actions are based upon what is best for the general public.

**Rationality:** the capacity for action according to enlightened self-interest, whereby actors compile a complete, consistent and transitive preference ordering, and choose actions accordingly.

**Rent:** as used by economists, a payment to a resource (factor of production) in excess of that which is necessary for it to remain in its current use; a surplus of returns in excess of input costs.

**Rent-seeking:** actions undertaken to secure rights or entitlement to rents; where output is fixed, expenditures to secure these rights yield no additional products for the economy and are therefore wasteful.

**Strategic voting:** casting a vote not in accordance with one's true preference ordering, in the hope of improving the chances of an option one favours.

**Zero-sum (or constant-sum):** a game in which the sum of payoffs to all players is the same for the winning outcome. Therefore what one player gains, another must lose (the size of the pie to be divided remains fixed.)



## 1. INTRODUCTION

*"Reform is not proceeding with the necessary dynamism. It is blocked by selfish interests bent on retaining obsolete procedures and privilege. The old guard is not giving up without a fight."*

(A comment from **PRAVDA**, as reported in **THE ECONOMIST**.)

*"Government is the great fiction, through which everybody endeavours to live at the expense of everybody else."*

(Bastiat, 1872: 8).

The above quotes expose the universality and the source of what will be identified as a driving force behind the injustices of apartheid: State intervention stemming from the self-interested behaviour of political agents. Despite the extensive liberal-radical debate on the economic causes and consequences of apartheid, some issues and viewpoints have not been addressed. The absence of any direct public choice analysis of apartheid is a particularly important oversight in the debate since such analysis is especially relevant, given its application of economic methodology as a basis for understanding issues which have substantial political import. This approach can prove beneficial both in explaining the essence and origins of apartheid and also in providing a framework for tracking the course toward a post-apartheid future.

### 1.1 AIMS AND SCOPE OF THE PRESENT ANALYSIS

The basic premise of this study is that apartheid emerges from an historical abuse of the rights and freedoms of individuals as individuals. It will be argued that protection of individual freedoms will obviate the excesses associated with group rights, especially those which limit the rights of other groups.

There are several preconditions to the formulation of prescriptive statements about change from the present to the future. In the first instance, there needs to be a consistent argument concerning the causal factors and the incidence of past and present circumstances. Secondly, it is crucial to develop a clearly articulated vision of the means and ends embodied in one's vision of the future. Unfortunately, while there is near universal acceptance that apartheid is no longer viable, none of the above conditions seems to be met in the discussion of post-apartheid South Africa.

The intent of this study is to investigate the nature and consequences of apartheid and to evaluate the vision of the future offered by the principal extra-parliamentary opposition groups in South Africa. The essence of apartheid will be

evaluated and argued to be a particular socialist manifestation of a general process of interest-group politics. A fruitful application of public choice theory would be an analysis and critique directed toward the Freedom Charter and the draft constitution of the African National Congress (ANC), documents which are widely regarded as providing a framework for the post-apartheid economic and political order. Assuming the essential injustice of apartheid lies in its exploitation of citizens by the State, these documents must be judged according to their sensitivity to this fact. An appropriate vision of post-apartheid South Africa should assign primacy to ways of limiting coercion, especially by the State.

Two principal tools of public choice theory will be applied to analyse the South African situation. The first draws from the contractarian origins of public choice theory and is identified as 'constitutional political economy'. The second is known as 'interest-group' theory and includes rent-seeking analysis. These sets of tools are applied to situations where individuals make decisions in a collective setting. The former is concerned with the nature of the choice of the rule structure as in a Hobbesian or Rawlsian process of selecting a social contract, while the latter is involved with the process of choice of actions within the rule structure specified in the social contract.

Reliance upon State intervention as a source of monopoly rights is the principal precondition for the type of interest-group and rent-seeking behaviour which will be analysed. Therefore, the nature of the political system will exert an important influence upon the extent and success of rent-seeking. An important corollary is that a *general disregard for individual rights, e.g., within an authoritarian regime*, provides a greater promise or guarantee of payoffs from individual and group efforts to secure monopoly rents.

This 'instrumentalist' view describes the State as a means for a variety of interests groups to further their special interests. In particular, rent-seeking activities emerge whenever the political framework constitutes an incentive structure which allows for individuals or groups to gain from the acquisition of contrived monopoly rights. The accumulated costs (social waste) of rent-seeking go beyond explicit monetary returns as is evident in the social and political aspects of apartheid. Models of rent-seeking have previously been applied to analyses of mercantilism and the development of trade policy. Therefore, the apparent flexibility of the rent-seeking model should make it amenable to explaining how group-orientated behaviour by Afrikaner nationalists, in collusion with other interest groups, contributed to the development of the institutions of apartheid.

Marxian theory provides an extensive analysis of the determinants and consequences of apartheid. Radical/Marxian models conceive of a peculiar relationship between class and race, on the one hand, and the political structure of apartheid, on the other. This relationship is extended to the capitalist economy, the form of the State, and the structural conditions of political struggles (Wolpe, 1988: 1). However, the mono-causal focus of Marxian analysis upon capital (defined in terms of the production mode) as the source of exploitation weakens its ability to provide a consistent explanation of other sources of social waste. An important oversight is revealed when considering the consequence of rent-seeking among bureaucrats in a non-capitalist (socialist) setting. In Marxian analysis, apartheid is reduced to a class or racial order with an emphasis on its economic ends. The rent-seeking analysis proposed here attempts to place apartheid in a broader context where political ends, e.g., Afrikaner nationalism, are served by economic means, e.g., job reservation.

An important implication of this study relates to the contentious issue of the relationship between the business community and the State or, in the jargon of the 'liberal-radical' debate, between capitalism and apartheid. The term 'racial capitalism' summarises a principal of the radical/Marxian perspective. However, an argument will be mounted which suggests that apartheid's restrictions on individual choice are more compatible with a peculiar form of socialism.

Attempts to use the State to secure monopoly rights can be undertaken by any group with well-defined interests. Hence, the social waste of rent-seeking and interest-group activity can also be associated with bureaucrats, political parties, trade unions or consumer groups.

A framework of individual and group behaviour will be developed with the following aims:

- (a) to explain the rise of Afrikaner nationalism,
- (b) to examine the subsequent development of apartheid,
- (c) to analyse the consequences of the present institutional structures, and
- (d) to examine internal contradictions which may lead to the demise of apartheid.

In addition, the proposed analytical framework can also provide useful insights into the prescriptions outlined in the Freedom Charter and the ANC constitutional guidelines. However, these issues are examined in a separate paper (Lingle, 1989).

As proposed above, the scope of the study carries it beyond the liberal-radical debate. The argument presented here is that while the liberal position provides an inadequate response to all the issues, the radical/Marxian arguments are too narrow in focus.

### 1.1.1 The Radical/Marxian Perspective

Although there is no single, monolithic model which all radical analysis relies upon (Wolpe, 1988), it is possible to isolate the essential components of this position. Most radical models assert that apartheid is a rational, class- or race-based conspiracy; that racial domination is a condition of capitalist development in South Africa. However, these arguments are weakened by a myopic attachment to a single causative factor, a single interest group (capital) which 'captures' the State.

While it does not suggest a complete refutation of the radical position, the absence of class or racial hegemony within the South African context implies an incomplete specification of the problem at hand. In fact, there is widespread evidence that various groups use State intervention as a means of increasing their wealth, e.g., trade unions, bureaucrats, and special-interest coalitions such as farmers. Even within a given group there is likely to be a diverse (often conflicting) set of interests. These groups which are beneficiaries from State intervention are by no means confined to white capitalists. It is thus naive or at least misleading to rely upon an analysis which is stated purely in terms of capital-labour or black-white. In each of these broad groupings there are sufficient differences of interests so that apartheid could not unambiguously confer benefits to **all** members within a 'favoured' group. Further, the focus of radical/Marxian class- or race-based model, despite claims to the contrary, "*closes off concrete analysis of issues widely relevant to political analysis*" (Wolpe, 1988: 2). And, while it may be admitted that "*there is symbiotic relationship between the state and big business*" (Stadler, 1988: 22), this relationship must be seen as "*contingent and, therefore, historically specific*" (Wolpe, 1988: 58).

### 1.1.2 The Liberal Response

The liberal argument was formulated principally in protest against radical attempts to identify a symbiotic linkage between capitalism and apartheid. The emergence of slogans such as 'racial capitalism' provides a summary statement of these supposed links. (Rhetorical attempts to link apartheid and capitalism are assessed in Section 3.2). Departing from a mainstream, neo-classical economic framework, the liberal model depicts apartheid as an exogenously determined

institution. In such a framework the system is considered to be 'irrational' and is divorced from the endogenous behaviour and reaction of economic agents. The liberal riposte claims that apartheid is basically an irrational system which was (1) opposed by capitalists who were 'captive' to the interests of a ruling party, and (2) inconsistent with the long-run adjustments generated by capitalism.

The liberal model is flawed on several counts. Firstly, in terms of positive analysis, it does not offer a clear explanation for the absence of an effective, consolidated frontal attack by white-dominated business interests against apartheid structures, nor does it reconcile itself with the presumed benefits derived from participation within these structures. Secondly, due to its particular situation within neo-classical economics, the normative framework of the liberal model cannot provide potent recommendations for avoiding similar injustices within future political dispensations. However, public choice theory provides a means of investigating the economic and political outcomes which might be observed in a variety of the anticipated post-apartheid institutional structures.

### **1.1.3 The Public Choice Perspective**

The logic of the public choice perspective parallels part of the radical/Marxian model since they both emphasise the interplay of endogenous (self-interested) forces. Thus, both reject the liberal assertion of the irrationality of apartheid. Apartheid is seen as a rational set of rules set within an incentive structure established by legal, historical and cultural traditions. However, in contrast to the radical/Marxian view, it will be argued that apartheid reduces the net welfare of all groups in South Africa.

Additional weaknesses of the liberal and radical positions and the subsequent lack of a clear understanding of the causes and consequences of apartheid will be expanded below. Unlike the simplistic 'capture theories' of the previous arguments, an analysis based upon interest-group behaviour relates to a process where individuals, acting alone or as members of groups, evaluate the costs and benefits of relying upon the State to protect or guarantee their positions.

Many of the shortcomings of the liberal and radical models can be overcome by the change in methodology proposed in Section 2. In particular, this change will allow for a more definitive statement to be made concerning the net welfare effects of apartheid. The subsequent model, which addresses rent-seeking, will be more robust and better able to explain the behaviour of a variety of interest groups within a number of different political and economic structures.

### 1.1.3.1 The State as a Rent-Creating Institution

In the neoclassical model of a competitive economy, the pursuit of rents (profits) is portrayed as a necessary and beneficial driving force. However, economists have recently come to understand that this pursuit is a double-edged sword. In the conventional mode, profits exist when payments to jointly used factors of production exceed the returns from the best (most efficient) alternative use of the resources. Profits are normally transitory as competition directs resources in response to these market impulses. Although they sometimes err, since entrepreneurs are directly responsible for their mistakes they have an incentive to behave in such a way that profit-seeking generates positive social consequences, e.g., greater output.

Rent-seeking, as identified in original insights by Tullock (1967), describes a different process by which individuals seek to escape the competitive forces of the market. The most effective restraints on competition are the result of the manipulation of existing institutions or public policy. The maximisation behaviour of individuals, pursued in conjunction with state-sanctioned disruptions to (mutually-advantageous, voluntary) exchange, leads to social waste rather than social surplus. Competition for protection instituted by contrived entry restrictions induces resource owners to misdirect scarce resources toward acquiring, maintaining or avoiding the costs of such transfer rights (Colander, 1984). In summary, governments provide the means by which individuals or groups both inside and outside the government press for legislation which protects them from competition.

Recent studies have identified the dynamics of racial oppression and the role of State intervention in advancing such behaviour. In South Africa, State coercion was seen as necessary to overcome the threat of competition from native Africans as a way of protecting the interests of whites (Bundy, 1979). Apartheid as legalised racism was an extreme form of protectionism whereby tariffs were imposed upon the use of resources, e.g., black labour, which originated outside the protected (white) community.

Implicit in the proposed model is an exploitative theory of the State which seeks to explain the dynamics of such insidious policies. Politicians and bureaucrats are seen as discriminating monopolists engaged in rent-seeking. But these powerful and self-seeking individuals are also operating within a political environment of interest-group lobbying. The consequences of these joint conditions decrease the likelihood of political decisions reflecting the best interests of the polity.

The similarities of the 'interest group' theory of political behaviour with Marxian analysis are as striking as are the fundamental differences. Reference to Popper's (1960) disparaging description of the "*Marxian conspiracy theory of history*" is appropriate here. Interest group theorists agree with the Marxian assertion that the modern mixed economy possesses internal contradictions which may cause its fiscal system to collapse (Littlechild, 1979). However, rather than viewing the course of history as a logical sequence of class domination, their focus is upon individual actors and their reaction to incentives within a social context. This analysis seeks to move beyond the categories employed in the liberal-radical debate which focused primarily upon whether capitalists were/were not either responsible for, or beneficiaries of, apartheid.

The radical claim that (some) capitalists were at least partial beneficiaries of apartheid is incontrovertible. However, there is similarly convincing evidence that capitalists opposed at least some apartheid institutions. In all events, capitalists were not the **only** interest group which influenced the development of apartheid.

An important aspect of this analysis is the attempt to resolve the contentious issue of whether or not apartheid results in unambiguous welfare losses to members of all groups in South Africa. It will be asserted that, although members of certain groups may benefit from redistributions in their favour, their relatively larger slice will be either from a shrinking pie or one which grows at a slower rate. If such is the case, then one can predict unambiguous welfare losses accruing to all members of society.

Therefore, the intention of this study is to specify a more general, robust theory of how and why interest groups are able to manipulate the State toward their narrow benefits. As indicated, benefits from rent-seeking are not confined to any single group, e.g., capitalists, or type of group. In fact, variants to rent-seeking are at least as widespread as the types and forms of public intervention in the economy.

#### **1.1.3.2 The Creation and Distribution of Rents Within the Apartheid System**

Capacity to contrive, grant and control barriers to entry is probably the most important political and economic tool of governments which must face competitive elections. The effects of rent-seeking/granting are examined here in two different circumstances. The first, developed in Section 3.3 below, describes the manner in which the presence of interest-group and rent-seeking affects the

evolution of a given institutional setting. The second situation would involve rent-seeking within a given institutional setting. While in the former case a redistribution of income may be generated to benefit a favoured group of individuals, in the latter case less will be available to redistribute due to the inefficiency of restricted output and higher prices associated with it.

Apartheid promised to serve as a means of guaranteeing monopoly returns to white owners of resources. This is accomplished by a contrived scarcity which drives up the value of white-owned resources, including their labour. Racial segregation and discrimination create rents by establishing an ethnic group as a 'cultural cartel'. The normal inherent weaknesses and instabilities of cartels are overcome in this instance since ethnic characteristics are innate. Rents based upon race specific legislation provide more certain than usual guarantees. Presence and acquisition of these rents depend upon: (a) the availability of political power and (b) the collective aspect of the payoffs from the legislation. This study will focus upon the institutions and rules which determine the availability of political power, and enquire into how appropriate limits might be set.

Aside from the policies peculiar to 'separate development', other examples of rents generated by contrived restrictions are tariffs or import quotas, licensing requirements for professionals or skilled trades, control boards, rent and price controls, and so on. As suggested above, dead-weight losses of monopoly reduce total output within the institutional framework of apartheid. Thus, if rent-seeking were subject to stricter, constitutional limitations, real output might have been greater. The welfare losses of rent-seeking encountered in other countries are combined with the outcome of 'racial rent-seeking'.

## 1.2 ECONOMICS AND INSTITUTIONAL ANALYSIS

Keynes believed that "*the power of vested interests is greatly exaggerated compared with the gradual encroachment of ideas*" (1973: 384). In a reversal of his well-known dictum that long-run adjustments must be given less credence than short-run exigencies, he concludes his General Theory with the following remark: "*But soon or late, it is ideas, not vested interests, which are dangerous for good or evil*" (1973: 384). Now, most students of apartheid would probably disagree with such an assertion: although one must agree that ideas do matter in the long run, it is likely to be countered with an argument that **institutions** are critical in the short run in determining economic, social and political outcomes.



This lack of concern for the nature of institutions can be seen to be a key flaw in Keynes' argument. In fact, he exhibited a surprising naivete concerning the propriety of actions which can be expected from public officials. Harrod coined the phrase "*the presuppositions of Harvey Road*" in describing the influences upon Keynes which led to his naive acceptance that decision makers in a democracy were neutral or benign in their intent (Buchanan, Wagner and Burton, 1978: 16). Adherence to such a 'public-interest theory of government' is rejected in this paper.

Keynes was aware that fiscal activities of the State lead to redistribution, changes in incentives, and possibly to distortions. However, what he seemed to ignore was that the instruments of expenditures and transfers could and would be used selectively to benefit individual politicians, political parties or narrow interest groups. Contrary to Keynes' apparent belief, public-sector action can never be neutral in effect and is seldom neutral in intent. This latter observation, coupled with a recognition that individuals pursue their own self-interest in political roles, leads to a rejection of what now seems to be an especially naive model of political processes.

More specifically, public choice theory rejects the implied portrayal of politicians or public employees as unrealistically selfless "*economic eunuchs*" (Buchanan, 1978: 11). The public-interest model also implies that individual preferences can be aggregated, i.e., that a set of social preferences is knowable. In this case technocrats can simply make the appropriate decisions when equipped with this knowledge. Policy will then be implemented which serves the aggregate interests of the public.

The framework established here will reject the 'public-interest' theory. An alternative 'interest-group' theory of government will question both the will and the ability of political agents to act in the public interest (McCormick and Tollison, 1981). A realistic framework for the analysis of political processes must account explicitly for the rational and egoistical motivations of the individual actors, especially in a rent-seeking perspective. In other words, a strong case can be made for symmetry in the application of the economist's model of 'economic man' in both market and non-market sectors (Brennan and Buchanan, 1985: 50). The focus is upon the consequences of choices made by self-interested (rent-seeking) individuals within a collective or group context. Thus, the atomistic orientation is well suited to providing an understanding of individual behaviour within the institutional framework of both Afrikaner nationalism and apartheid.

### **1.3 DESCRIPTION OF RENT-SEEKING ACTIVITIES**

Rent-seeking behaviour was described in Section 1.1.3.1 above. Such behaviour can take place at three levels (Buchanan, 1986: 12-14). In the first instance, governments can contrive monopoly rights through restrictions on entry. Rights to earn these State sanctioned rents will obviously have value and individuals will bid for resources in an attempt to secure these rights. Lobbying costs, bribery, special preparations for examinations, etc. , reflect the loss of resources which occur if rights/licences are distributed through a political or bureaucratic mechanism. Even if these rights were to be competitively auctioned off by State agencies and were themselves readily marketable, rent-seeking would still be observed.

Receipts from auctioning of monopoly rights, e.g., licences, will now provide rent-seeking opportunities at a second level. Given the presence of the revenues generated by the auction, individuals seek to gain access to the rents and the power associated with public employment. Rent-seeking at this level could be eliminated if salaries and perquisites are competitively determined.

Nonetheless, other rent-seeking opportunities would arise in the reaction of individuals or interest groups who seek shares of the transfer-granting process of governments. These activities are common to all representative governments which, in principle, are subject to constituent pressures. We would expect individuals to shift into (out of) activities which received (paid for) transfers of income or wealth distributed through the budgetary activities of the government.

An explanation will be offered to determine the sources of losses in dynamic efficiency by applying the theory of rent-seeking behaviour. A framework of individual and group rent-seeking will be applied.

### **1.4 THE IMPORTANCE OF INSTITUTIONS**

The discussion that follows draws from the wide recognition that, as a result of rent-seeking, the welfare losses from monopoly and regulation are larger than previously thought. The assertion is that use of scarce resources in unproductive activities, e.g., lobbying or bribery, for the capture of publicly supported transfers reduces the availability and raises the real price of goods and services.

One implication of the model of rent-seeking is that the more centralised the State, the greater will be the expected payoff and the more active will be the

efforts toward securing the fruits of public interventions. Another implication of this model is that, due to the nature of the established political institutions in South Africa, any shift in the locus of power may simply alter the racial or ethnic mix of the targeted interest groups. The inefficiencies will remain intact as their source, namely, State agencies which grant monopoly rights, will be unaltered. Apartheid is in essence a peculiar abuse of this general problem.

In a post-apartheid regime the principal shift could be in the form of slogans or personalities with no substantive change in either the nature or the cause of public-sector inefficiencies. It is worth noting that, even in a well-functioning representative democracy, interest groups will be able to decouple the politician from the preferences asserted by the voters. Although it is of unquestioned political relevance to have a shift to majoritarian democracy with a universal franchise, the economic and political adjustments may be less favourable than expected unless institutional structures which encourage rent-seeking are altered.

In other words, the beneficiaries of monopoly-source income may change, but the inequities and inefficiencies of monopolies which are induced by public-sector action will remain. This prediction does not depend solely upon the degree of centralisation of the government or of the economy. However, centralisation will determine the degree of social waste from rent-seeking. This is expected since centralisation influences the extent and impact of State-contrived monopoly forces. Marx's prediction of the perpetuation of the dictatorship of one economic class over another may be borne out in South Africa by the coming to power of a different batch of rent-seekers.

As suggested, the proposed model will be general enough to explain interest group and rent-seeking behaviour in a variety of institutional arrangements. Applicability of this model is neither dependent upon the presence or lack of property rights nor limited to specific organizational/functional definitions of the State. To be more precise, the model can explain equally well the operation of a bureaucracy and the openings for rent-seeking in political systems as apparently diverse as the Soviet Union and South Africa.

## **1.5 APARTHEID AND INDIVIDUAL RIGHTS**

Our principal interest in apartheid arises from its rigid and systematised restrictions upon individual freedoms. While the destruction of individual rights of the disfavoured (black) groups is more conspicuous, there are substantial infringements upon the individual rights of whites. In this sense the evil of apartheid is not simply a question of racial discrimination *per se*. The problem is even more

fundamental in that apartheid militates against individual choice as to whether or not to discriminate.

Market analysis and many political philosophies stress the importance of the freedom to choose. Apartheid involves grievous offence to this ideal (which must include freedom of association) since it obviates individual choice to determine whether and how much to discriminate. One could (should) make a normative judgement that racial or ethnic or sexual discrimination involves widespread costs and should be avoided. However, the question posed here is an analytical one which does not seek to judge the outcomes of the individual's choices. Unfortunately, voluntary choices may include the type of negative discrimination which is presently a legal obligation.

For purposes of this study apartheid will take on an operational meaning as a 'monopoly grant' to all whites as a means of broadening support towards the explicit end of serving the Afrikaner *volk*. Thus formed, whites act as an interest group and behave like a legally enforceable cartel. In the strict legal and moral environment of apartheid, while there may be some incentives to cheat on the cartel agreement, the considerable force of the law renders the costs of cheating very high.

In the established economic jargon, then, apartheid has certain characteristics which are similar to a 'public good'. Specifically, there are substantial external benefits (costs) of being a member of the favoured group. The non-exclusivity of such benefits is such that they will accrue regardless of one's political or moral sentiments. However, since one cannot be readily excluded, neither can one opt out in a costless manner. Aside from the legal force, the costs of social ostracisation and perceived opprobrium of defectors will also help to police and maintain the system. In the end, no one can be free until all are free and have equal rights before the law. Aside from the legal restrictions which affect them, whites are also captive to the moral degradation associated with a white supremacist regime.

### **1.5.1 Apartheid's Institutional Precursors**

The abuse of individual rights can be seen within the context of historical circumstances which define the relationship between the citizen and the State. Therefore, an understanding of the development of apartheid requires an appreciation of the complex web of historical and cultural institutions which stemmed from mercantilist, colonial, nationalist and frontier influences (see Section 4.1). The end result, though different in focus, e.g., which groups are

favoured, is not different in kind from many regimes in the Third World where State intervention in the economy serves political ends (Bates, 1981).

### **1.5.2 Legal and 'Moral' Pressures to Support Apartheid**

Rent-seeking behaviour under the institution of apartheid can be expected at all three levels as outlined in Section 1.3. However, the politics of apartheid becomes inextricably linked with the economics of beggaring one's opponent. The same ends are met by co-opting potential opponents through promises of privilege such as in the case of the formation of Bantustans or township municipal councils. This has been accomplished by circumscribing individual rights of exchange and association, especially among blacks. As a consequence, this control limited the accumulation of the financial ability to develop and support political factions opposed to those in power.

Such restrictions may be more important than direct limits upon political freedoms since it might be argued that political rights develop from the greater dispersion of economic power. Increases in the economic power of an expanding number of individuals raises the political consciousness of individuals to protect, or seek freedom to improve, their economic position. The 'Rule of Law' promises to be more fair than the capriciousness of a 'Rule of Man', where an authoritarian government can take away, at whim, as easily as it may grant privilege. Broad dispersion of economic power is seen in this light as an important impetus for democracy which has been severely undermined by apartheid.

Apartheid resembles the arguments for import substitution in that it involves the construction of barriers to entry to protect specific ethnic (industry) groups in order to secure support for the government in power. In the post-World War II era, politics in South Africa can be interpreted as having been dominated by attempts to achieve cohesion among Afrikaners by controlling the distribution of the largesse generated by State-supported monopoly rights.

## **2. METHODOLOGICAL AND THEORETICAL FRAMEWORK**

If it can be said that one's vision of the course of future events is at least incidentally influenced by how one interprets the past, then a whole set of value judgements intrudes not only upon the interpretation of history but also guides one to anticipate particular outcomes. Following this statement it is critical that the value judgements and the resulting methodology of any analysis be well spelt out at the outset.

### **2.1 METHODOLOGY OF THE ECONOMIC ANALYSIS OF NON-MARKET DECISION MAKING**

The distinguishing characteristic of public choice theory is its application of economic methods and tools in order to understand individual behaviour within a non-market setting (McLean, 1987). The analysis is applied to the behaviour of bureaucrats, voters, politicians and interest coalitions as well as to an examination of the origins and legitimacy of governments.

Justification for the apparent encroachment of economic analysis into areas which were once considered outside its domain is found in a shift away from the Robbinsian identification of allocation as the central problem of economics. By shifting the focus from **allocation** to (voluntary) **exchange**, the collective choice processes usually associated with most forms of democracy are then seen as appropriate areas for the application of the tools used by economists (Buchanan, 1986:9-27).

One of the criticisms of the use of the allocation paradigm is that it removes the human element from the economic problem. The loss of the human element stems from the implication of given ends associated with a known utility function within a necessarily static setting. Thus, a mechanical rather than human process is described. This objection is clearly seen within the discussion of the paradigmatic shift which is explicitly justified within the subjectivist framework presented below.

Although much of the theoretical work of public choice theory has generally focused upon political behaviour within a representative democracy, there have been attempts to extend the basic models to examine dictatorships (Cao-Garcia, 1983), autocracy (Tullock, 1987) and mercantilism (Ekelund and Tollison, 1981). Therefore, application of public choice theory as a means of explaining the rise

and fall of apartheid does not involve stepping upon totally new ground. Analysis of the post-1948 political situation in South Africa, despite the existence of a multi-party parliament, reveals what effectively amounts to fairly authoritarian, one-party rule. However, future developments in South Africa are likely to be determined in a bargaining situation similar to the classic pre-constitutional (Hobbesian) phase of the evolution of the State. Such a social-contract bargaining procedure might be well described in the **indaba** process peculiar to tribal customs in South Africa.

The specific application of public choice methodology selected for this study can be summarised in simple terms as follows: a model of rent-seeking behaviour will focus upon a purposeful, potentially dictatorial individual who seeks to maximise subjectively determined benefits while minimising subjectively evaluated costs. This behaviour occurs in the process of engaging in transactions with others in the face of uncertainty and scarcity, such that the outcome of attempts to fix mutually binding contracts, when viewed collectively, cannot be judged as either rational or irrational (McKenzie, 1980:19).

The methodological foundations of public choice theory are described in the following sub-sections.

### **2.1.1 Methodological Individualism**

At issue in terms of this component is the distinction between holistic and individualistic explanations of social phenomena (Lukes, 1973: 110-24). Methodological individualism identifies the individual as the appropriate and principal focus of analysis. Social institutions can be explained as formed and maintained by individuals to fulfil their own subjectively determined ends, framed independently from the institutions (Lukes, 1973: 26). An extreme scepticism of aggregate measurements or of social (holistic) statements arises from this position unless these statements or measures are couched in terms of the individual actor. However, it does not require that the individual be seen as hypothetically removed or 'de-situated' from society.

Social and institutional forces are seen as one of many important sources of influence upon the choice-making behaviour of individuals. An analytical statement associated with this position is that social institutions **in fact** satisfy individual ends or else they would cease to exist. A normative statement is that social institutions **ought** to satisfy individual ends. Models which operate within this methodological context explain the actions of particular people in terms of the logic of the given situation.



With this individualistic approach, the behaviour of organisations like the State or private interest groups is related to the behaviour of individual members. Such a viewpoint implies that the little precede the great in importance: the local is the basis of the general. The focus therefore is upon rational, self-interested, utility-maximising individuals. The main actors are politicians, bureaucrats and voters.

An important aspect of this methodological component is that individual, self-interested behaviour is seen as an equilibrium-generating assumption. As indicated in the next section, the choices of individuals are understood to be driven by subjectively determined ends. Nonetheless, portrayal of self-interested individuals should not be misconstrued to rule out altruistic behaviour. Yet neither is altruism seen as a reliable or stable characteristic to generate equilibrium.

A positivist confirmation of the appropriate nature of methodological individualism is the widespread presence of 'unintended consequences' resulting from the course of individual actions. Although Adam Smith's 'invisible hand' is the best-known example, both Marx and Weber understood the implications of this phenomenon for the process of social change (Boudon, 1982). In simple terms, the concept of 'unintended consequences' describes the manner in which social equilibria are reached through individual choices whereby the outcomes are other than those foreseen by the actors. Clearly, it is the disparate and independent actions of individuals which cause the diversion of social outcomes from private intentions (Hayek, 1988).

### **2.1.2 Methodological Subjectivism**

O'Driscoll and Rizzo (1985: 195) provide a critical element in the epistemological framework of public choice which is most clearly seen when combined with methodological individualism. Subjectivism of individual choice (values) is at the centre of this particular argument (for similarities with the Austrian School, see Dunleavy and O'Leary, 1987: 105-115). Alternatives to be chosen among, and evaluation of, the options are posited to be present only in the mind of the chooser (Buchanan, 1969). Knowledge does not consist of objective data since the passage of time renders some knowledge useless because of changes in the institutional setting or availability of resources and technology, or simply, tastes of the chooser. Such changes alter qualitatively and quantitatively the form and ranking of alternatives. Thus, one is led to reject the concept associated with the allocation paradigm of neo-classical economics which posits a static set of ends/goals which are applied within a known or knowable utility function.



### 2.1.3 Contractarianism

Gordon (1976) describes the application of economic concepts of the contract-making (bargaining) process to the broader issue of social contracts or constitutions (Gwartney and Wagner, 1988; Lee and McKenzie, 1987; McKenzie, 1984). The importance of the shift of emphasis of economic analysis to exchange becomes apparent in this context. Politics is seen as a second-order process of mostly voluntary exchange of, e.g., votes and taxes for rights and economic goods.

The analogy with market exchange can be extended to provide a guiding principle of unanimity as a means of reaching agreement on rules which govern behaviour. After unanimity is reached upon the setting of rules, majoritarian outcomes may be implemented to settle upon alternatives which are allowable within the general set of rules (Brennan and Buchanan, 1985: 19-32).

The essence of this component forms the basis of Hobbesian analysis of the reactions of men to conditions found in the state of nature (disordered anarchy). Such a condition would require an extensive expenditure of resources to avoid a life which in Hobbes's terms would be "*solitary, poor, nasty, brutish and short*" (1963: 143). In the limit, all resources will be utilised for offence and defence of preferred goods. Within this position, it is assumed that (rational) individuals prefer peace to war and seek some sovereign in whom to invest the monopoly of coercion. The granting of such a monopoly on coercion is both a Faustian bargain and a tenuous situation which requires the use of evil (force) to do good.

Accompanying this 'contractarian vision' is a specific view of the State. Following the logic of the unanimity principle, it is viewed as a mechanism which is designed to serve the ends of individuals. This mechanistic view of the State contrasts with an 'organic' view which conceives of society as a natural organism with each individual representing a part with the State as the heart (Rosen, 1985: 6). In the organic, holistic view, 'societal' goals have value separate from and superior to those of the individual. The mechanistic view associated with contractarianism rejects attempts to contrive social aggregates which subsume the individual to society.

## 2.2 THE THEORY OF NON-MARKET FAILURE

The importance of public choice analysis becomes apparent in the light of its principal analytical-positive contribution which might be depicted as the theory of 'non-market failure' (Haveman and Margolis, 1983: 515-534). One specific

application, namely, 'public policy failure', is seen as adding greater depth to the area of welfare economics. This is important since previously welfare economics has been concerned with the evaluation or the prescription of public-sector intervention as a means of correcting market failures.

Within the public choice paradigm, individual choice-making in a collective setting is seen to be inconsistent with a public-interest theory of public-sector activity, and requires an acknowledgment of the importance of institutions in governing the nature of individual choice. Several applications of the problems with public policy institutions will be considered below and subsequently extended in Section 5.

#### **2.2.1 Failure of Voting to Serve as an Efficient Indicator of Demand for Public-sector Goods**

Since Arrow's seminal work on social choice theory, the problems of voting cycles/paradoxes have been known to economists (Holcombe, 1983: 29-49). Public choice theory identifies additional defects associated with representative democracy as a means for individuals to reveal their preferences through a collective choice process. In some cases, for reasons other than intransitive ordering of preferences, the process of voting may fail to serve as a means of revealing a 'true' social welfare function.

In particular, the weaknesses inherent to representative democracy become apparent with the application of self-interested behaviour to political agents. Representative democracy involves the election of delegated political entities who are meant to provide the impetus for appropriate legislation and public policy. However, the public choice model of vote-maximising politicians or political parties (Downs, 1959) suggests that the supposed link between voters' preferences and public policies is in fact very weak. In the first instance, assuming that information is a scarce good, individuals make rational choices to remain ignorant of certain issues, including politics in general and the position of specific politicians or their parties. As a consequence, voters necessarily use limited information in expressing their preferences when faced with a problem requiring some joint decision. Perhaps worse, they may rationally choose to be politically inactive rather than acquire sufficient information to cast a ballot. (Other related problems concern the decision to refrain from voting on the basis of a cost-benefit analysis. In a large-number setting, the low probability of affecting the outcome reduces the incentive to vote). Without transitive outcomes of democratic voting, i.e., consistent and resolved independently of the agenda setter's predilections, the revealed preferences will be incomplete.

Also, the formation of distributional coalitions (interest groups) will be able to gain a differentiated share of economic/political power due to their political clout and the rational ignorance of other voters. As a result, the observed basket of publicly provided goods and services is more likely to reflect some amalgam of the preferences of politicians, their political parties and distributional coalitions than the public-sector equilibrium consistent with some abstract notion of a general will.

### **2.2.2 The Economic Theory of Bureaucracy**

Since governments supply goods and services through some form of bureaucratic structure, the production side of public-sector activity is dependent upon the workings of the bureaux. The modern economic theory of bureaucracy (Niskanen, 1971) concludes that bureaucracies tend to pursue their own internally generated maximand which may not coincide with the interests of the public. Specifically, bureaucrats acting as self-seeking individuals are seen as attempting to maximise their departmental budgets. The incentive system for bureaucrats does not depend upon sale of output, satisfaction of client, or any differential between sales revenues and costs. They then seek to improve conditions of work, most of which are directly linked to the size of their budget. By holding a monopoly of information on the bureau's activity, bureaucrats can manipulate the decisions of the legislature/sponsor governing their expenditures. In such a model, bureaucracies exhibit greater sovereignty and are much less subordinated to political masters. This observation will have important implications in highly centralised governments.

On the other hand, social waste may occur as a result of rent-seeking competition to capture the salaries and non-pecuniary amenities of working within the bureaucracy. For example, a tendency may emerge which encourages excessive preparation through training at particular schools/universities in order to gain access to the rents associated with government posts (Tullock, 1967).

### **2.2.3 The Leviathan Hypothesis**

Using a framework of positive economic theory, the expected consequences of a given (political) institution upon individual and collective choice and public interventions in the market can be examined. Public choice theory questions whether or not public policy intervention is capable of improving upon or removing the inefficiencies of market failure. The Leviathan hypothesis, which is one type of 'public policy failure', predicts an **excessive growth** of public-sector

activity (Forte and Peacock, 1985; Saunders and Klau, 1985; Zysman, 1983). Fiscal mismanagement associated with an over-sized public sector leads either toward pressures for collapse or momentum to change the institutional structures which define the political realm in order to restrain public-sector growth.

Rent-seeking and interest-group behaviour are described as a major impetus of the hypothesised excessive growth of governments through the development and use of political powers to benefit those who run the State or support the government in office. Pressures from well-organised groups of constituents upon elected representatives seem to have an irresistible appeal, especially within a representative democracy. On the other hand, the model of a substantially sovereign bureaucracy describes an internally generated inertia for growth in excess of true social preferences. Even well-intentioned, public-sector intervention in fact may lead to **increased** welfare losses, especially in the absence of specific institutional arrangements which seek to limit rent-seeking behaviour.

Means might be found ,e.g., constitutional constraints, for limiting the potential damage done by inappropriate or excessive actions taken to limit mutually advantageous transactions. These issues will be examined in some detail in Section 5.5. Of course, the successful application of these constraints is contingent upon historical and cultural circumstances.

### **2.3 INSTITUTIONAL STRUCTURE AND INDIVIDUAL CHOICE**

As has been established, the central unit of analysis will be the individual acting in various roles identified within institutional settings which determine incentives and require either individual or collective choice. The development of various political institutions and individual behaviour in the presence of selected institutions will be modelled as a process of rational and purposeful choice.

#### **2.3.1 Differences and Similarities between Marxian and Public Choice Analysis**

The importance attached to the impact of institutions suggests some compatibility with Marxian analysis. However, the assertion of methodological individualism as a basic element of the present analysis will obviate any extended comparison. (Expressed formally, for public choice theorists, epistemology is prior to, and determinant of, ontology. In the Marxian framework this process is reversed: ontology is prior to, and determinant of, epistemology.)

As implied by the following argument, the epistemological position of the public choice school implies that the outcome of the social choice process is non-deterministic. Unlike in Marxian analysis, public choice theory suggests that capitalism might evolve in any number of unanticipated or unintended ways. This is supported by the description of the effect of the passage of **real time** upon the development of subjective knowledge. **Real time** is an explicitly dynamic concept which refers to the **qualitative** consequences of the passage of time. These qualitative changes involve the effects of changes in values which arise from new information which can be available only in the future (O'Driscoll and Rizzo, 1985: 52-70). Classical, Marxian and most neo-classical economic analyses utilise Newtonian time which reflects a mechanical, **quantitative** treatment of time.

Real-time analysis implies that knowledge is discovered in a dynamic process, and is based upon subjective evaluation as to its merit or usefulness, which resides in the mind of each individual (Hayek, 1937 and 1945). Given the dispersal in terms of possession and judgement of the uses of knowledge, it is impossible to accept the concept of social preferences which can be knowable by a single mind. The process of the formation of knowledge and the subsequent impact upon individual action is summarised in the concept of unintended consequences of individual action. A good example of the concept of unintended consequences is the case of language where no one individual nor even a group could have envisaged the value of language or to have been able to design its efficiently evolved form. The evolution of institutions is seen as being influenced by the process of individual choice with no collective end in mind. The satisfaction of ends is an individual evaluation and is knowable only by the many different actors.

On the other hand, given its dialectical arguments, Marxian analysis, though also non-deterministic, does imply limits upon the manner in which the development of institutions occurs. The progress of history is predicted to move along a rational, linear plane. Specifically, capitalism is expected to develop within fairly strict bounds, i.e., either to degenerate to open barbarism or to develop into socialism.

In contrast, the explicit methodological framework of this study suggests that the form and evolution of institutions is independent of any specific historical or cultural imperatives. Although these factors are recognised as important influences, the interaction of individuals in the process of making choices (choosing individually preferred courses of action) is identified as the critical component of change.

More concretely, what is at stake is a different type of 'class' analysis. Marxian class analysis reflects upon the nature of class in relation to the mode of production. Public choice theory is directed towards the relationship of class in terms of political means. In public choice analysis there are basically two classes in society - those who use political means (force or coercion) to acquire wealth and power and those who use economic means (voluntary interaction within the market). The former (ruling) class lives off the labour and wealth of the latter (exploited) class. It is the ruling class that is 'parasitical', not the capitalists. Ruling classes can accumulate the power to outlast capitalists or any other such clique. Yet any government, whatever its form, can and will tend to be manipulated by (small) rent-seeking minorities. These minorities might reflect the interests of political party members, bureaucrats, trade unions, industrial or agricultural groups, or professional associations.

### **2.3.2 Individual Choice, Agent-Principal Relations, and Public-sector Activity**

Differences in institutional structures will alter one's roles and thus influence the individual's choice-making process. The principal determinants are the location both of costs and responsibilities, and the absence or presence of links between choice of action and results. The choice-making behaviour of the individual can be described within three roles or positions (Buchanan, 1986: 229).

In the first case, individual choice in a private setting describes market exchange, and is most familiar to economists. Given the assumption of methodological individualism and subjectivism, it follows that, despite the social interactions which might be included in such choices, the utility function of the individual will be the only one directly affected by choosing. Responsibility both for the choice and incidence of the effects of the choice are directly situated in the individual in question.

Secondly, the individual may serve in an agency role, either choosing or acting for a principal. In this case responsibility is assigned to the agent for a given choice, but the costs of the choice are externalised. Certain rules must be established to constrain the agent from making inappropriate choices, the cost of which are borne by others. For example, in the case of a public servant with life tenure, the likelihood of replacement is insignificant. Therefore, the agent-bureaucrat may ignore the consequences of being identified as the one responsible for a given decision. Allowing for either replacement of such agents or including them in some pro rata share of costs/benefits, may improve upon the choice-making behaviour of agents.



Finally, individuals must make choices in a public or collective setting, e.g., as a voter or a political representative. Unlike in the previous settings, the linkage is broken between choice and the incidence of result. This is so, for example, since there is a small likelihood of one individual's vote affecting the outcome of a ballot, particularly in a large-number case. Further, there are few schemes which hold the voter accountable for the values expressed in the polling so that individuals may not reveal their true preferences. To complicate matters, outcomes of majority-rule voting generate externalities to the losing minority which must abide with the outcome.

Representatives, in contrast, are able to impose policies on the general public for which they may not pay the full costs. Long delays in polling, combined with a short memory of voters (and rational ignorance as discussed below), work against accountability.

Consequently, combining the uncertainty of the marginal costs/benefits of the outcome of collective decisions with that of the results of not being held accountable for indicating a preferred position, a tendency emerges which suggests that individual behaviour is less responsible than in a private-choice setting. Another problem also arises since, in a collective setting, the individual may act as a free-rider with respect to the outcome of a vote and rationally choose to abstain.

Individuals are not likely to find themselves always or uniquely in any one of the positions defined above. In particular, the overlapping influence of individual interests casts doubts upon the prospects for reaching socially efficient solutions from either agency or collectivised institutions.

#### **2.4 INTEREST-GROUP BEHAVIOUR AND THE ECONOMIC THEORY OF RENT-SEEKING**

In order to avoid confusion of familiar terms used in a different analytical framework, it is necessary to distinguish the concept of rent-seeking from profit-seeking. Profit-seeking involves returns which are the result of increased efficiency, acquisition of new knowledge and/or application of a newly discovered technology or resource, or just plain luck so that an entrepreneur is justly rewarded for providing more goods of a higher quality and quantity. Rent-seeking implies the destruction or loss of valuable economic resources through a misdirection in their use which is encouraged by some institutional setting (Ekelund and Tollison, 1982).

#### **2.4.1 Terminological and Analytical Differences**

As might be expected within any relatively new body of thought, there is some dissension concerning terminological and analytical matters. The title of Section 2.4 reveals competing terms which describe the type of processes in question. Selection between these terms reveals an ideological loading. Public choice practitioners adhere to rent-seeking because of its conventional association with the problem of public policy failure. Within the Public Choice School, the tendency is to focus upon the consequences of individual choice within a collective context. Since rent-seeking is viewed as resource-wasting activities of individuals seeking transfers of wealth through the aegis of the State, it is the term which will be best suited for the proposed analysis of apartheid.

On the other hand, several international trade theorists (Colander, 1984:17-32) refer to directly unproductive profit-seeking activities (or DUP, pronounced fittingly as 'dupe') to describe the activities with which we are concerned. DUP activities are seen as either distortion-seeking or distortion-triggered. In the latter case, the activities are divided between lobbying for change in policy and evading ill effects of present policy. Under these conditions, in the light of second-best starting points there may be situations where DUP activities may lead to welfare gains. The negative emphasis associated with rent-seeking is thus seen as an overstatement (Bhagwati, 1983).

Although it is claimed that the model describing DUP activities is more general and perhaps more complete, the term rent-seeking suggests a more familiar concept to most economists and thus will be used in this study. In any case, both groups described above would admit that the areas of most general concern involve welfare losses associated with rent-seeking/DUP activities which are the concern of public choice analysis.

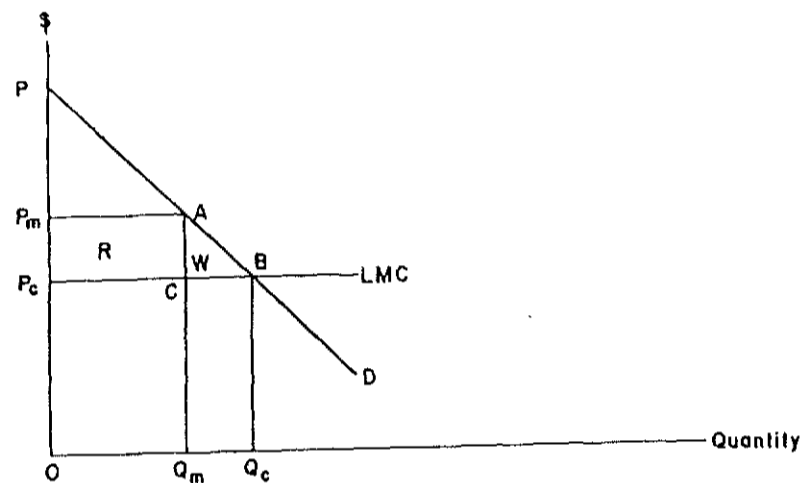
#### **2.4.2 Rent-seeking and Welfare Losses**

Although the origins of the concept of rent-seeking are normally traced to Tullock (1967), an early impetus for the examination of the economic consequences of rent-seeking behaviour lies in the conclusion offered by Mundell (1962). His suggestion was that empirical evidence revealed that welfare costs of monopolies and tariffs were very small, and that this observation might imply that economics might be somewhat irrelevant if this were the case. Mundell pointed out that the losses in consumer surplus associated with the Harberger (1954) triangle have been found to be of no great consequence (WBA in Figure 1). However, this



conventional method of calculating social costs overlooks resources spent in order to obtain or maintain transfer privileges or protection, e.g., lobbying for a tariff, or in attempting to avoid the costs imposed for other's benefits! More complete examination implies that the area of the 'Posnerian trapezoid' (Posner, 1975) is a more complete specification of the welfare losses of monopoly since it includes the costs associated with rent-seeking ( $P_cBAP_m$ ) in Figure 1.

FIGURE 1



Given that property rights are not assigned, ex ante, to the area of potential gain to a monopolist, competitive bidding will take place to capture the monopoly rights. Eventually the entire area of Posner's trapezoid is dissipated. (Rent-avoiding may be non-trivial as consumers or other affected individuals or groups may likewise expend resources to limit the consequences to them of the monopolisation efforts by others).

In an important article by Kreuger (1974), it was estimated that the rents in Turkish import licences alone amounted to about 15 per cent of GDP. Posner estimates that the total cost of rent-seeking in the USA amounts to 3 per cent of GDP, which must be added to the losses identified by Harberger.

Further application of this thesis is found in Olson's theory of the operation and effects of the actions taken by special interest groups (1982: 47) which predicts that a type of 'economic sclerosis' is likely to lead to increased political divisiveness. Efficiency and aggregate income of societies with extensive interest coalitions will be reduced owing to the cost imposed upon the many by the few.

On balance, it should be clear that there are net welfare losses associated with rent-seeking behaviour. The wastes are the result of bidding for positions of artificial scarcity which must be added to the higher prices and lower output that normally accrue to society under conditions of monopoly.

### **3. INTEREST GROUP THEORY, RENT-SEEKING AND LINKS WITH AFRIKANER NATIONALISM AND APARTHEID**

This section will examine the historical circumstances which will be argued to have been necessary conditions for the emergence of apartheid. The correlative effects of apartheid to other institutions, e.g., capitalism and Afrikaner nationalism, will also be identified, and the operation of apartheid will be examined. Finally, predictions will be offered concerning future consequences of rent-seeking in a post-apartheid South Africa.

#### **3.1 INSTITUTIONAL PRE-HISTORY OF APARTHEID**

Much of the history of the governing of South Africa has been characterised by centralised institutions devised under either mercantilism or colonialism. Various colonial or imperial powers imposed policies and directions for the development of the economy on South Africa from the outside. The rent-seeking elements of mercantilism are now well established and can probably be generalised to explain behaviour during the subsequent period of colonial expansion (Ekelund and Tollison, 1981). These related institutions relied upon a strong State apparatus which in turn provided a strong historical precedence for the high degree of centralisation which has been exhibited by the modern South African State since 1948.

Throughout South African history, there have been substantial opportunities for producers to bid for monopoly rights. This has been especially true in the course of the modern development of Southern Africa. The resulting development of extensive monopoly rights was both a consequence and a cause of the evolution of a strong, centralised domestic government. Mining capital and other large-scale producers (particularly after 1910) were happy to encourage the development of a State apparatus which would serve their ends (Stadler, 1987). Contrary to the developments related to mercantilism where the rent-seeking behaviour of absolute monarchs gave rise to an economic middle class, in South Africa narrow economic interests set the stage for the development of a special form of State.

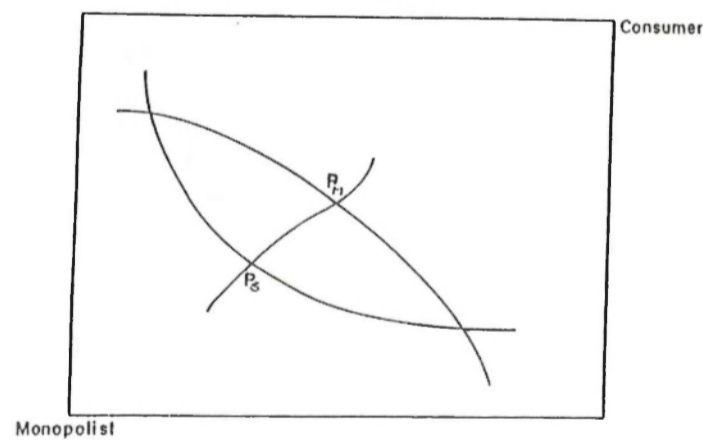
It is also worthwhile noting that, in general, centralised governments and their bureaucrats prefer dealing with small groups of powerful industrial masters. As a consequence, concentrated economic power and centralised political power complement each other in purpose and convenience. The existence of one confers a mutual advantage to the other. This commonality is likely to be

observed regardless of the nature of the organisation or functional structure of the State.

These developments can be explained as follows. Based upon rational, individual choice, coalitions tend to form when benefits are concentrated within an identifiable group. However, costs of public policies, for example, higher taxes or diversion of funds from other uses, which benefit special-interest groups, are dispersed over all citizens. The relatively small individual impacts are spread over a large group with otherwise divergent interests. This, combined with a general lack of understanding of political machinations and ignorance of the source of the imposed costs, militates against voter-consumer coalitions forming to oppose transfer to special-interest coalitions.

Figure 2 illustrates the bargaining position between a potential or existing monopolist and consumers (Baysinger, Ekelund and Tollison, 1980: 241). It is assumed that the monopolist has much greater power in this setting as the individual pay-offs for the consumer to oppose the monopolist are in most cases small relative to the costs. Therefore, unless a given institutional structure explicitly limits the rent-seeking potentials, the bargaining game will result in an equilibrium locus at greater disadvantage to the consumer. To be specific, the imposition of a monopoly price,  $P_m$ , will place the consumer on a lower indifference curve, i.e., a lower level of utility, than would the competitive price,  $P_c$ .

FIGURE 2



In the post-World War II period, as in other nations, South African business and agricultural interests sought monopoly rights since returns to rent-seeking can be more secure than the uncertainty of profit-seeking. Their tendency to seek rents was encouraged by the greater ease (lower cost) of organising due to the visible

and concentrated benefits accruing to a small, identifiable group. Latecomers - smaller business interests and non-business coalitions - had a much weaker base for support as the costs were broadly dispersed over a larger and unsophisticated group. On the other hand, there were few of the necessary conditions for a modern democracy to place any checks upon this cosy relationship. As long as these narrow interests could limit the expansion of economic power in the hands of a potential opposition, the relationship could survive. For these reasons substantial inhibitions existed to reduce the emergence of a viable and effective political opposition, not merely among Africans, but also within the so-called liberal, white establishment.

Thus, the power centre gravitated initially toward serving the somewhat exclusive interests of large-scale capital rather than labour since the costs of forming labour coalitions loomed larger than what were admittedly enormous benefits. The apparent exception to this, the formation of exclusively white trade unions, is in fact consistent with the above argument. Much lower costs of organisation and knowledge of pay-offs from group action led to effective and forceful assertion of power for the benefit of white trade unionists who pursued their own interests rather than that of the working class in its entirety (Hutt, 1964: 62).

In the early decades of the twentieth century, the interests of Afrikaners in general and black labourers in particular were not well represented as they wielded little economic power. Also, they suffered from the limited success of political organisations, e.g., the National Party's erratic political performance before 1948, to protect their interests. Ironically the cultural and economic isolation of the Afrikaner community in the recent stages of South African history served as an important catalyst for the future development of a group ethic which has served them so well, and perhaps others so badly.

### **3.2 RHETORIC AND REASONING OF APARTHEID**

In order to unravel the nature of apartheid, it will be useful to re-examine some aspects of the debate on the economic consequences of apartheid which has occurred with cyclical intensity over the past several decades (Lipton 1986; Bromberger and Hughes 1987; Greenberg 1980; Wolpe, 1988). In this radical-liberal debate, the radical/Marxian position posits a mutually advantageous link between apartheid and capitalist institutions which can be summarised in the term racial capitalism. Much of the evidence for the linkage was based upon rhetoric which has been misleading particularly for those outside the borders of South Africa seeking to understand apartheid. This coupling of apartheid and capitalism has been as unfortunate as it is erroneous; the implication is that the

market system tainted a free and fair society.

Interestingly, the present regime itself has purposively added to this confusion by appearing as an apologist for capitalism in order to gain international allies and legitimacy. The apparent embrace of free-enterprise capitalism by the National Party since the late 1970s reflects political opportunism rather than an ideological commitment. For example, privatisation in the hands of the National Party government is probably a short-term response to problems of avoiding tax-financed outlays to upgrade or provide infrastructure. The current regime is conscious of the currency of such free-market rhetoric to its targeted international audience.

As indicated in Section 1, the liberal argument is aimed at countering claims of a supposed beneficial link between apartheid and capitalism by identifying the logical inconsistency of apartheid with economic efficiency. The apparent necessity to impose active interferences on markets suggests that free and open markets would have undermined the separateness which is the aim of apartheid. Evidence of this contention is seen in the imposition of stringent laws which was just as necessary to enforce adherence of the favoured group to behavioural schemes as was necessary to undermine the position of the disadvantaged groups.

As suggested earlier, while the Marxian argument has been misleading, the liberal response has been inadequate in its explanation of the role of capital in the development, continuation and demise of apartheid. The following arguments portray capital as merely one type of interest group which could manipulate a given set of political institutions.

### **3.2.1 Differentiating Characteristics of Capitalism and Socialism**

At this juncture, in order to unravel the capitalist-socialist origins of apartheid, it might be helpful to provide some definitions. However, it will not be necessary to offer explicitly delimited definitions. An alternative approach, in recognition of the need to be sufficiently flexible in order to identify real-world examples for the purpose of contrast, will be to identify processes and modes of behaviour rather than precise, idealised systems.

In order to remove some of the political impact of the term 'capitalism', 'market economy' might be an improvement (Hayek, 1988: 111). For our purposes, **capitalism** (the market economy) will be defined as a system which assigns primacy to the conditions which affect the individual, especially in terms of the

exercise of market choices. The foundations of the market economy are: (a) the right of private ownership, (b) freedom of contract, and (c) limited government (Pejovich, 1983: 1). Therefore, capitalism or the market economy is consistent with any non-coercive individual aims. In a system based upon individualism, order is seen to be derived spontaneously. Such 'spontaneous order' evolves from the subjectively determined actions of individuals, e.g., the market order (ibid., 1988: 6). In such a context state intervention is eschewed in order to allow maximal freedom of choice (voluntary collaboration). Individuals are allowed to assert their subjectively chosen means towards fulfilling their subjectively chosen ends. Under conditions of minimal state intervention, the opportunities for individual enrichment through profit-seeking dominate those of rent-seeking.

Although the following does not represent a complete definition, the essential foundations of most functioning socialist systems are (a) public ownership, (b) administrative planning, and (c) party membership (Pejovich, 1983: 6). Rather than allow the distribution of resources, income and wealth to be driven by choices made by individuals as individuals, under socialism a central authority is granted power to dictate a deliberate arrangement of human activity (Hayek, 1988: 7). It is well known that the term socialism was derived as a counter-argument to individualism which was a credo of 19<sup>th</sup> century liberals (Lukes, 1973). While capitalism is consistent with any non-coercive individual aims, socialism is consistent with nearly all collective means. This shift of focus from the individual to the social brings with it a tendency for interventions by the State and use of its coercive power to 'improve' upon spontaneous order. Under socialism, pressures are applied to induce individuals to relinquish their private bargaining strategies and to accept public (imposed) solutions. In consequence of its inherent bias in favour of State intervention and limitations upon private ownership, socialism as a system is more conducive to the socially wasteful behaviour associated with rent-seeking.

### **3.2.2 Institutional Arrangements as Determinants of Profit-seeking and Rent-seeking**

As discussed in Section 1.4, the nature of legal and political institutions have an important impact upon individual choice. Legal and political institutions provide an incentive base for economic decisions. For example, in the absence of State intervention, it can be expected that entrepreneurial talents will be directed towards pursuit of risky market ventures to seek profits. Alternatively, an institutional bias in favour of public intervention provides the inducement for the same entrepreneurs to solicit rents in the form of State-enforced monopoly grants. Although rent-seeking involves costs, the fact that the assignment of monopoly rights provides a secure flow of returns will provide a path of least



resistance. As indicated above, rent-seeking is more likely to be observed in states where economic decisions are centralised, as under socialism.

However, the extensiveness of public intervention in markets may not be contrary to the functioning of certain variants of capitalism. For example, the form of industrial capitalism which characterises much of South African industry generates opportunities for pay-offs from rent-seeking. Private ownership of capital in many industries is mixed with substantial regulatory protections against competition. Many of these regulations are more influenced by political rather than economic reasoning. However, from an operational standpoint the nature of ownership (private or public) is less important than are the monopoly protections. In this sense these firms may act little differently to State-owned firms in the Soviet Union, for example. Based upon the analysis offered here, retributive demands for the public takeover of the so-called private monopoly structure of South African industry are misguided. Nationalisation of the firms which occupy the 'commanding heights of the economy' will do little to change the nature of their production.

If the real purpose behind the complaints against South Africa's industrial giants is to transform these firms to be more responsive to consumer demands, then the State institutions and rules which protect these firms must themselves be altered: effective competition must be restored. State ownership cannot aim to improve competition because of its exclusive claims both on resources and sales and the fact that State monopolies are sheltered from the chilling winds of competition. For reasons addressed elsewhere, neither can State firms be expected to produce optimally.

However, entrepreneurial or free-enterprise capitalism requires less State intervention in order for firms to carry out the discovery process which can only be guided by market transactions. State intervention in markets is designed to restrict competition or provide exclusive rights of production. Regardless of the intention of these measures, they result in distortions in market signals. The movement towards privatisation, deregulation and reform of the socialist economy implies a widespread consensus (though not articulated as such) on the need to re-direct economic decisions from rent-seeking toward profit-making, from centralised interferences toward decentralised market processes.

#### The Social Pedigree of Apartheid

The apartheid system was an unfortunate result of the radical attempt to link apartheid to



prey to their sloganeering. Acceptance and use of slogans by the radical camp occurs despite often internally inconsistent content. The term **racial capitalism** is a good example of deceptive and contradictory use of language as argued below.

Although slogans are of little intellectual value, apartheid might be better described as **racial socialism** (Lewis, et al, 1986). This claim is made on the basis that apartheid involves social(ist) obstruction of activities as the means of meeting racial(ist) ends. Support for this claim is based upon the contention that the institutional structure of the State lies at the core of the injustices of apartheid (Burton, et. al., 1986). The implication of this rejoinder is that the nature of the State and abuse of its coercive power needs to be changed rather than to eliminate market forces and private property (Hutt, 1964). Therefore, the contradictions between apartheid and the market system (capitalism) are dysfunctional and render the two incompatible. On the contrary, a greater compatibility and consistency of both means and ends is observed between apartheid and socialism.

The confused coupling of apartheid with capitalism stems in part from the radical/Marxian interpretation of the essence of the economic problem. Unlike other schools of economic thought, the Marxian assessment places the notion of class struggle or the mode of production at the centre of economic analysis. In this context it is logical to contrive a conspiracy theory where (white) capitalists or neo-colonial powers 'capture' and manipulate the State.

Thus, the term racial capitalism is meant to identify an especially onerous variation of the inherently unjust system of capitalism. Following the radical logic, capitalists are able to thrive by adding to their list of dupes not only the benighted proletariat but also a racially orientated group of cohorts. These partners are included as beneficiaries in the process of the unrelenting reproduction of the relations of production. In particular, an alliance with white workers is to serve as a means of holding the larger number of black workers in bondage to the alienating production system. Exploitation of the mass of (black) workers is maintained by co-optation of a smaller, better organised (white) minority.

#### **3.2.4 Economic Consequences of Political Power: Apartheid's Social Interference with Individual Action**

Sober reflection, however, suggests that the characteristics of apartheid are more consistent with centralised, collectivist states and socialism rather than free-

the implementation, and the **results**, of apartheid rather than the qualitative intentions of the policy. It is noteworthy that most of the economic monopolies could be maintained without apartheid.

Consider the following spectrum of public policies which distinguish capitalism from socialism. At one extreme is a minimal amount of State interference/coercion within a system of voluntary exchange and private property rights. (This is consistent with most Marxian definitions of capitalism since private ownership is the principal tool for the control of the means of production.) At the other extreme is a situation of maximal State intervention and planning with sharply attenuated property rights due to State ownership of the factors of production. The intersection of various policies within the apartheid regime is evaluated below.

#### **3.2.4.1 Social Engineering**

Social engineering is part and parcel of apartheid and is also an integral component of the socialist enterprise. An assessment of the intentions behind social engineering is unnecessary for it to be considered a part of a social(ist) project. What may emerge is a subjective evaluation of the programme, e.g., national socialism (fascism) is bad while communism is better. Nonetheless, this connection stands even if one is forced to accept that apartheid involves a distasteful form of social engineering. In all events, socialism in general, and apartheid policies in particular, aim to direct social development and militate against that freedom of choice by individuals which is claimed to exist under capitalism.

#### **3.2.4.2 Market Intervention**

Another consideration concerns the extent of and predisposition towards State intervention in the the process of market exchange. The efficient operation of capitalism requires free exchange within a system of private property rights. In South Africa, in contrast, all holdings of property have been effectively 'nationalised' within the policy of apartheid. This claim is based upon the nature of the corpus of laws which has placed severe restrictions not only on the sale of property but also on labour and capital movements. In a very real sense the State has dominated all market transactions to an extent not encountered in other mixed economies. Although many of the policies discussed below exist in other mixed economies, most have a particular role within the apartheid system.

#### **3.2.4.3 Labour Markets**

Labour as a form of property (human capital) transacted in the labour market has also been 'confiscated'. Not until recently, with the removal of job reservation legislation and influx control, have workers had exclusive legal rights over the sale of their labour. In practice, their mobility continues to be problematic. It should be noted that some socialist regimes have also enforced restrictions on individual choice of jobs, especially, though not exclusively, through centralised planning.

#### **3.2.4.4 Markets for Land and Land Resources**

Transactions concerning land likewise have been conspicuously circumscribed by Group Areas legislation. Ownership rights are subject to the authoritative designations of the government, especially in the African townships and homelands. As a consequence it is as though housing were a nationalised commodity. The massive landholdings of the State are likewise incompatible with a capitalist system which relies upon broad rights of ownership.

Less obvious and contrary to popular understanding, the mines have in effect been 'nationalised'. Mineral rights are detached from land ownership such that one can only sink a mine after paying licence and registration fees and eventually taxes/royalties on production. At present Anglo-American and its competitors are simply (admittedly well-paid) management firms which operate in the place of a (usually overpaid) State bureaucracy.

#### **3.2.4.5 Obstruction of Competition and Price Adjustments**

Free exchange in South Africa faces further restrictions in the form of numerous agricultural Control Boards. (Interestingly, the success of the reform of Chinese and Hungarian socialism is a consequence of the elimination of the inefficiencies stemming from the control of agricultural markets!) There are numerous other legal restrictions on market activities including exchange and capital controls and state monopolies. Hardly the stuff of free-wheeling capitalism despite recent lip-service paid to privatisation.

#### **3.2.4.6 Concentration of Industry**

It is recognized that the peculiar form of capitalism in South Africa is not beyond reproach. The presence of cartels, State-sanctioned private monopolies and the

apparent generally favourable treatment of (especially large-scale) capitalists has served the radical's conspiracy notion very well. Yet it is just this cosy sort of arrangement that stifles capitalism or at least entrepreneur-guided free enterprise. It is ironic that the opponents of the present regime have accepted the government's strategic propaganda which seeks to identify South Africa as a bastion of free-market capitalism. In playing along with such a charade, the government actually serves the strategic purposes of those opposition groups who would reject decentralised market decisions in favour of a centralised or planned economy.

#### **3.2.4.7 Apartheid as an Inefficient Tax**

Aside from welfare losses associated with normal monopoly-seeking behaviour, South Africa suffers from a peculiar form of rent-seeking behaviour which involves a well-developed and rational political entrepreneurship. The outcome of the policies generated by the political entrepreneurs has had the effect of a (inefficient) tax placed upon the population at large which redistributes income towards the ruling party, State employees and other recipients of State largesse.

In the sense that taxes reduce the purchasing power of the 'taxed' individuals, apartheid can be seen as a tax. However, it tends to be highly inefficient in as much as it has led to a reduction of, or limitation upon, the potential tax base. Without querying the justness of taxing certain groups as a means of supporting the institutions of apartheid, it is clear that the present system is far from optimal in terms of efficiency.

#### **3.2.4.8 Apartheid and Class Struggle**

Thus, it can be argued that South Africa's maldistribution of income and wealth so frequently cited (Knight and McGrath, 1977; McGrath, 1983) may have little to do with capitalist exploitation *per se* and instead stem from selective and purposeful activities of individuals or coalitions (of all types or classes) to encourage intervention by the State to benefit such diverse groups as (white) trade unions, business interests, civil servants, university lecturers, and so on. Hardly the stuff of class struggle which in its pure form should predict that the interests of rural Africans would be pitted against urbanised Africans. Apartheid is not a function of class struggle as such. Instead it reflects the outcome of a special type of rent-seeking which in turn establishes secondary opportunities for further rent-seeking. In fact, one of the intentions of apartheid was to replace 'class' or worker hegemony of (white) trade unionists by racial hegemony (Welsh, 1974: 274).

### 3.2.5 Political Consequences of Economic Power

A further argument is in concert with, but goes beyond, the liberal critique of apartheid. This position suggests that apartheid relies upon a procedure of 'begging thy neighbour' as both a means and an end. This relationship can be best understood by examining the bond between economic and political power. It will be argued here that the demand for political rights arises out of the emergence of economic power. The demand for political rights is seen as increasing in tandem with increases in private-source wealth and income. Political power serves as a means of securing one's economic position from arbitrary confiscation. If this is so, the impoverishment of the groups excluded through apartheid would set bounds upon both their means of, as well as their incentives for, developing political power.

Naturally a policy which impoverishes a significant portion of the population has costs even to its perpetrators. In simplistic terms, the shrinking of the overall size of the economic pie implies that even those who maintain the largest slice will be worse off than with an enlarged pie. However, the costs to the advantaged group tend to be invisible since they may simply involve foregone opportunities of economic growth. The impact only impinges upon the protected group as declines in growth rates become conspicuous. As discussed earlier, Olson's theory of group cohesion (1965) would predict that the decline in economic growth forces a reappraisal of the benefits of continued support. Such reappraisal would be most critical to the decisions of the many unwilling beneficiaries who toed the line principally to avoid the costs of defection, e.g., social ostracism, moral opprobrium and/or legal prosecution.

As Hirschman (1970) predicts, the decline of economic growth in the 1980's has generated pressures for more vociferous voicing of opposition. Likewise, many nominal supporters of the government have begun either to demand an undertaking of negotiations with forces which oppose National Party policies or else simply to defect to other political organisations. Cynics who discount the recent acts of goodwill from South African business leaders should recognize that several conditions had to be met before they could participate in a dialogue with extra-parliamentary, opposition groups. The most obvious, yet most often overlooked, point is that even now there is no monolithic structure which defines the opposition. Earlier attempts at negotiations would have taken place in relative isolation. Negotiations are pointless if the bargaining partner has uncertain support and is unable to muster a consistent political will. Only very recently have consolidations of the forces in the townships led to the emergence of a significant, directed political force.

A final condition for disassociation with apartheid has been noted above in terms of the individual costs and benefits of participating within or challenging the institutional structure (Olson, 1965). The expected benefits derived from defecting from or challenging the legal apparatus must offset the anticipated costs, legal and otherwise, as a precondition for action against even the most morally offensive set of rules. A critical mass has finally been reached in South Africa where all of these conditions are in place. Isolated attempts to challenge the system in the past would have involved costs in excess of the payoffs derived from linking up with groups which reflected the broad interests of the majority. There are even now numerous pretenders for this distinction. Previous claims were even more contentious.

### 3.2.6 Apartheid as a Variant of Socialism

The most important result of the above reasoning surfaces in the contention that the nature and consequences of apartheid lie within the social(ist) interferences with free exchange whether in terms of economic, social or political activities. In short, the types of restrictions placed upon individual freedom of choice are necessary for, at least more compatible with, a socialist programme. For example, influx control still exists and is unchallenged as a socially productive policy in the USSR. In China there are no longer explicit laws which limit urban influx; however, urban accommodation is effectively controlled either by 'work units' or municipal authorities. Likewise, squatting in urban areas is strictly prohibited in both countries.

It is clear that influx control can be, and often is, based upon factors other than race. However, such control (for whatever reason) represents an authoritarian restriction on individual rights which is normally accompanied by some limited redress available to the individual. Such offensive policies should be discredited as a matter of principle, not simply on the basis of special (racial) pleading. It is an interesting and illuminating test to ask South Africans if they consider it socially just to apply influx control if based upon criteria other than race. Advocates of a market economy are certain to answer in the negative. 'Progressives', for example, those associated with the United Democratic Front, are likely to answer in the affirmative.

The chronically disproportionate distribution of power in South Africa can be better understood by rejecting the mono-causal attachment of blame to a single interest group, e.g., capital. In fact, the ability of special-interest coalitions to utilise and direct the coercive powers of the State for their narrow benefits is a condition found in most State structures. Afrikaners have found it to their group



advantage to impose racial hegemony through legislative and economic structures which were designed to confer selective economic benefits. Their success was based upon an ability to direct the machinery of the State for the benefit of whites. Those who suffered the most should understand that these excesses were generated through misuse of centralised political power. It should be clear, therefore, that strict delimitations of central power will best serve the interests of the oppressed groups in a post-apartheid order.

It is undeniable that some measure of the excesses of apartheid were the result of actions taken in collusion with the State in order to promote self-enrichment of some capital owners. (The same impulse - to restrict competition - however, was present in attempts by skilled, white workers to limit the access of unskilled, black workers to the labour market.) For the most part capital owners simply responded to the incentives established by the political structure. Similar abuses of power and injustices associated with contrived monopoly rights are likely to emerge from the self-aggrandizement or enrichment of any special-interest coalitions which could capture political power. If this assertion is correct, then the removal of the injustices associated with apartheid requires a change in the incentive structure of the political institutions to remove the temptations for rent-seeking and the authoritarian abuse of power.

The argument for institutionalised restraints on political structures to inhibit the subsequent use of the State monopoly on coercion represents a consistent argument which should be examined by any group which would wish to rule South Africa. The issue at hand should not simply address the racial content of authoritarianism nor seek to attenuate private property rights. Focus should rather be upon institutional and constitutional means of eliminating authoritarianism and the sources of power accruing to interest groups.

Ironically, various attempts to portray the present regime as fascist (Bunting, 1964; Simson, 1980) are relevant in establishing the compatibility of apartheid with socialism. Characterisations of South Africa as a fascist state have great symbolic power. On the one hand, it is intended to inspire an emotive opposition to the present regime. On the other hand, a type of rhetorical reductionism is implied such that any set of ideas which are contrary to the 'progressive' opposition forces might be associated with fascism. This reductionist argument represents another attempt to connect apartheid with capitalism.

Although the notion of South African fascism is disputed by Adam and Giliomee (1979), whichever definition is selected for fascism, i.e., whether emphasis is placed upon repression or enforced ideology, these operations require massive

State intervention. In particular, monopoly capitalism and protection of nominally private firms is enforced through the State apparatus to the detriment of individual entrepreneurial initiatives. The hindrance of profit-seeking entrepreneurs reveals a tendency which is anathema to the market economy. While the analysis of South African fascism is unconvincing, the robustness of such claims should simply provide support for the apartheid-as-(national)-socialism argument presented here.

### **3.3 THE NOTION OF AN AFRIKANER NATION, UNITY, AND THE DEVELOPMENT OF APARTHEID**

The ascendancy of a particular national identity involves a more complex issue than that associated with the formation of the typical distributional coalitions described above. Nonetheless, opportunities for rent-seeking at all three of the levels discussed in Section 1.1.1 will be examined here as they served the movement toward greater unity among the Afrikaner people.

Apartheid serves as a means of furthering both cultural and political nationalism for Afrikaners, but the consequences of political nationalism are of more interest here. Nationalism results in demands for the shifting of international or inter-ethnic income or wealth. Changes in, or maintenance of, such policies require real expenditures of economic resources by the nationalist group. The resulting nationality or membership of an ethnic group becomes a form of collective or public capital (Breton, 1964).

Rewards or payments out of this capital are disbursed in both monetary and non-monetary forms. Monetary rewards to members are most often in the form of relatively high-income jobs. Programmes and policies under a nationalist regime are often selected on the basis of the number of high-income jobs which will be generated for the favoured group. However, such policies will yield a lower national income than would occur using other, more strictly economic, criteria. Nationalist policies are not designed to, and cannot, maximise social income. Of course, it is the anticipated redistributive effects that provide the offsetting rationale for this otherwise irrational proposition.

The basic institutional framework inherited by those Afrikaners who came to power in 1948 was moulded by a variety of historical circumstances. It is ironic that there is no striking tendency on the part of the Afrikaners for dependence upon a strong and centralised government until the 20th century. However, the same strain of individualism and self-preservation is consistent with, and can be seen as, the root of apartheid (Louw and Kendall, 1986: 20).



Meanwhile, from 1910 to 1924 and subsequently from 1939 until 1948, Afrikaner nationalists found themselves out of political office - a factor which exacerbated their subservient position in the economy. Their sense of self-interest gave rise to a group identification of common interests. This is justified by Olson's Law (1965) which describes a logic of collective action. However, it is not common interest which is viewed as the cement of the collective action. According to Olson, group cohesion is based upon the agreement of subjectively determined preferences of the individuals which are in a (tentative) state of agreement with the ends of the group. Collective action is contingent upon the satisfaction of private needs.

Group cohesion is strengthened by the creation and control of 'selective incentives' which are payoffs available only to members of the group. There are those who will have the incentive to act as 'free riders' since the burden of a single individual is of little relative significance in a large-group setting. Alternatively, there are 'negative selective incentives' which impose costs on those who violate the group ethic. Ultimately, it is the weighing of private costs and benefits of participation which determines the individual attachment to a group cause.

An extension of this analysis can be seen in the light of Hirschman's (1970) description of the options which group members must choose between: exit, voice or loyalty. Therefore the dynamics of group cohesion is viewed as a situation in which these options are balanced against each individual's personal calculations. At present the National Party is finding a growing proportion of whites, and particularly its own members, selecting the first two options. This point will be raised further in Section 3.4.2 in a discussion of the increasingly aggressive opposition of commercial interests to apartheid rule.

Afrikaner political entrepreneurs, anticipating the payoffs (rents) of acquiring power, effectively linked individual to group survival as a source of political unity, and attempted to give operational value to the identification and definition of the *volk*. In operation, belonging to the *volk* became a public good. Adherence to the group ethic was derived in part on the basis of the real and psychic costs of remaining outside the group relative to the expected improvement in terms of one's survival and position. This was joined by the sense of obligation or duty of the membership of the identified group on the basis of the argument of a shared cultural background and values, including an appeal to strong religious ties. Expected payoffs from political cohesion provided an apparently irresistible incentive.

Exploitation of this political opportunity worked because it was seen to provide net benefits to virtually all members of the group. Of course, numerous other factors, including the changing demographics of the white population, for example, relatively higher birth rates and the age distribution in the Afrikaner community, a transformation toward a more urbanised Afrikaner population, restrictions upon the franchise, perceived external threats both to the Afrikaner community ('swart gevaar' and immigration) and to South Africa (communism), all combined to provide the impetus to join an interest coalition which promised to serve the Afrikaner nation. The (Afrikaner) nationalist cause won the day and the power in the election of 1948 (Stultz, 1974: Chapter 7).

Rent-seeking by self-interested politicians helped to forge a coalition which took over the political apparatus which was to be centralised in order to deliver the promises which would ensure continued political hegemony. Changes in immigration laws, naturalisation procedures and rights of representation served as a means of checking a longer-term threat to political unity (Stultz, 1974: 160). The explicit use of the term **apartheid** appeared as a policy statement of the Afrikaner nationalists as early as 1947 (Stultz, 1974: 137), but it is well established that the question of race as an important economic and social issue was prevalent in political debate throughout South African history. The implementation of apartheid as a coherent and rigid legal policy can be seen as a partial manifestation of a need to expand the basis of coalition to include all whites in a matter of shared interests.

### **3.4 CAUSES OF THE DEMISE OF APARTHEID**

Assuming that the present government depends upon the support of capital for continued survival, a break in this marriage of convenience would challenge the viability of the government and its favoured institutions. On the other hand, problems of sustaining a high level of economic growth for rising public expenditures will be an impetus toward the demise of apartheid.

#### **3.4.1 The Contradictions of Apartheid and Competitive Processes**

Competition is a crucial component of capitalism. It is through competition and entrepreneurial action that profits, the guiding element of capitalism, are generated. Policies which have curbed competition in South Africa were not designed to obviate profits *per se*. In fact, these restrictions do protect a particular group of capital owners. It is understandable that this opportunity has led to some capitalists entering into a 'conspiracy' with the apartheid regime. However, it is clear that business interests have often clashed with apartheid policies and

institutions so that it is erroneous to claim a clear, consistent line of mutual dependency.

Restrictions upon competition, e.g., assignment of statutory monopoly rights, hinder the efficient functioning and beneficial results of a market economy. State-sanctioned monopoly rights have been both a means and an end of apartheid. It is important to note that these results are similar to the inequities and inefficiencies which are generated by the huge, monopolistic State international trading companies of the socialist nations.

Consistency of stated intentions aside, State-sanctioned monopolies and other curbs on competition are unquestionably in closer accord with socialism. Despite claims to the contrary, socialised monopolies are even less likely to react to the demands of the people due to the coercive capacity of the State to make up shortfalls through raising taxes. Private monopolies, which face tighter budget constraints, though reluctant, will have to abide more closely with market impulses.

In this light, the most appropriate way to remove the monopoly power of capital is to reject State intervention rather than to rely upon it as a cure. As argued above, State intervention is the real culprit in creating and protecting monopoly whether in a socialist or a mixed economy. The simple recourse is to reduce the powers of coercion vested in governments: to reduce the State's capacity to sponsor **monopoly capitalism** and to encourage instead, **entrepreneurial capitalism**. Limiting State interference in the economy is all the more credible in view of the admission of various socialist regimes of the need to re-introduce the discipline of the market into their economies and to decentralise economic planning. Interventionist policies aimed at restraining individual initiative and market forces have proved to be failures. These failings are seen in terms of the costs of foregone economic growth, and particularly in terms of the loss of consumer sovereignty.

#### **3.4.2 Shifting Position of Capital**

As described above, as coalition partners business interests can choose to opt out of the coalition, voice disapproval in order to seek remedial changes, or simply remain loyal (Hirschman, 1970). Capitalists have found it be increasingly disadvantageous to have even remote association with the government's apartheid policies. The sources of pressures which have led to the selection of the exit and voice options will be examined in this section.

There are various sources of the reduction in the net benefits of coalition which will lead to a breakdown in the increasingly unhappy, always tenuous, union between business and the government. Despite the ad hoc Carlton and Good Hope conferences initiated by the government in 1979 and 1981 respectively, these tensions prevail principally due to bureaucratic inertia (Stadler, 1987: 166).

The shifting winds of international economic activity have reduced the absolute economic power of big business. Sanctions and the loss of international respectability have raised the international ante. Continued association with the current regime has also led to increasing domestic costs for the local business community. Rising taxes and guilt by association as an apparent economic cohort generated considerable pressure to disassociate with or demand reform from the government. Capitalists see a need for the development of conditions conducive to an expansion of the domestic economy. Improvement in the domestic economic environment has become more urgent as earnings in export-orientated activities evaporated for economic or political reasons.

On the other hand, small businesses show promise in terms of a growing relative importance in the economy. Some restrictive or regulatory policies which may be envisaged as a boon to big business may be a bane to small, newly emerging firms. Entrepreneurial openings for firms to act as rent-creators rather than rent-seekers serve further to weaken the cooperation between business and the government. Manpower needs, especially for more skilled labour, have also been an important impetus for change in labour policy.

Finally, the absence of an identifiable and viable political opposition provides business enterprises with no means to counter government policies found to be against their interests. However, an extra-parliamentary political opposition likely to be an important player in the development of future institutions has emerged. Producers and other interest coalitions will seek greater visibility in the camp of this opposition in order to establish contacts which will reduce anticipated future costs of any transformation or reform of the South African economic and political scene.

### **3.4.3 The Effect of Interest Coalitions upon Economic Growth**

Later work by Mancur Olson (1982) provides an alternative argument to the source of the fiscal and/or legitimisation crises of the State. The analysis concerns a socio-political model of economic performance. The consequence of collective

action within a macroeconomic framework is developed as an expansion on his work on the logic of collective action discussed above. Substantial historical and empirical support is offered in support of his hypothesis (Mueller, 1983).

Olson concludes that the dead-weight effects of increasingly ubiquitous distributional coalitions or special-interest groups will eventually generate a slowdown in economic growth due to the increase in rigidities which are introduced into the economy and the polity. The ubiquity of these coalitions arises from increased political sophistication and improved communication, among other factors.

The weakening of the economic growth potential emerges from a reduction in the extent of what Hicks identified as the 'flexprice' sector of the economy (Olson, 1982: 209). Political support for distributional coalitions will allow them to exercise a monopoly position and to set prices above market-clearing levels. When shocks occur to the economy these coalitions will resist adjustments or tend to be slow in doing so. The loss in resilience in the economy is expected to exacerbate business cycles and build in a high and rising non-accelerating inflationary rate of unemployment or 'Nairu' (Ibid.: Chapter 7). Ironically, at a certain level of pervasiveness of distributional coalitions, the redistributive effect of transfers to special interest groups will dominate and possibly offset the intended effects of redistributive tax policies.

The excessive rigidities imposed by general rent-seeking behaviour and by apartheid in particular seem ultimately to have restrained the growth of the South African domestic economy.

The urgent need for establishing conditions which will encourage economic growth and recovery will be likely to induce reform of certain economic and political institutions. Politicians within the ruling party may seek entrepreneurial advantage and either alter or sell-out and abandon their present loyalties. However, unless there are limitations placed upon the opportunities for the formation of rent-seeking distributional coalitions, the only change will be in the distribution of the impact. This is rather like the logic of transference of pain where one smashes a thumb to forget about a headache. A more appropriate course of action would appear to be to address the sources of the agony, that is, to propose radical transformation of political institutions to limit policies which serve special interests.

### 3.5 REDISTRIBUTION AND RENT-SEEKING IN POST-APARTHEID SOUTH AFRICA

Any post-apartheid government will have to face enormous pressures to redistribute wealth and income. However, many long-term problems will be unaffected by such policies. The problem of distributional coalitions and enlarged bureaucracies is likely to encourage zero-sum distribution which will offset much of the redress-orientated reforms which might be implemented.

Economic efficiency (growth) will be hampered since distributional coalitions will seek to maintain their strength, e.g., by opposing new technologies or changes which, though efficient, would shift resources away from their control. Such interest-group organisations will form to maximise the individual member's benefit through exclusive membership, and to minimise the differences in both the income of members and the value of membership to them. Trade unions, industrial or agricultural lobbies, educational associations, or legal and other professionally licenced groups, all operate along these lines, regardless of their stated objectives.

Political and economic processes will be retarded due to the innate conservatism of distributional coalitions. Their slothful response to changing economic and political exigencies will tend to be reflected in governments which rely upon them for support. Following Olson's socio-political model of economic growth, (1982), in the absence of traditional or explicit restraints on the extent of demands which are made by emerging distributional coalitions, enormous damage will be done to the self-adjusting mechanisms of the economy. Under representative democracy there is little resistance to such pressures since elected governments will resist the pressures to serve these groups at their own peril.

One of the dominant models proposed by extra-parliamentary political groups for the post-apartheid political structure is that of a unitary, centralised state. Niskanen's theory of budget-maximising bureaucrats (1973) suggests that the attendant increase in the power and centralisation of bureaucracies is bound to serve as another source of increased costs and rigidities. The additional costs will go beyond the administrative costs of salaries, perquisites and pensions. Greater losses are likely to appear as a consequence of a slowdown in economic and political decision-making which are associated with extensive bureaucratisation.

#### 4. A NORMATIVE SKETCH OF POST-APARTHEID POLITICAL ECONOMY: TYPES OF DEMOCRACY

As implied in the above arguments, especially in Section 2, governmental structures and institutions exert an important influence upon the degree of interest group and rent-seeking behaviour. It is therefore crucial to develop a clearly articulated vision of the means and ends embodied in one's vision of post-apartheid South Africa. For example, if the implications of a public choice analysis of apartheid are accepted, the control of rent-seeking is more easily accomplished within an institutional framework guided by political principles which limit the power of governmental structures. In fact, the principal issue at stake is the question of the viability of attaining democratic ideals in the light of numerous practical constraints. On the basis of the above arguments which point to the harmful effects of excessive State power, the following analysis will assign primacy to ways of limiting coercion, especially by the State. Otherwise, as is argued, the centralisation of unfettered power will lead to a disproportionate share of resources being allocated to specific interest groups. Ultimately, this is seen as causing a decline in the growth of the economy.

##### 4.1 DEMOCRACY: LIBERAL OR POPULIST?

In the run-up to a post-apartheid South Africa, many terms and concepts are used as if objective, universally accepted definitions existed for them. A case in point is the confusion which surrounds even the term **democracy**. This confusion results principally from the fact that, first, democracy refers to a method of resolving questions of social choice, and second, it represents the embodiment of an ideal(s). It is widely accepted that that a distillation to its essentials reveals that democracy has three basic components: (voluntary) participation, liberty and justice. Yet, from such apparently clear and objective observations come rather complex and sometimes surprising results. For example, if participation (voting) is seen as the crucial element in democracy, the result may be that institutions which we approve of collectively (democratically) are sterile in that they do not satisfy the other conditions of liberty and justice. A crucial aspect of this problem emerges from the confusion which stems from a misunderstanding of the distinction between collective and individual rights and freedoms (Hayek, 1960: 13-15).

The discussion that follows is derived from examining two different interpretations of democracy: **liberal** versus **populist** (Riker, 1982). The differences which shall be probed are those which emerge from different perspectives on the anticipated end e.g., freedom and/or liberty, and the means (voting) of achieving the end. A theory of 'populist democracy' implies that democratic ends are best

approximated by a few simple arrangements for balloting. By contrast, a theory of 'liberal democracy' implies that rule by any majority will fail to secure the ends of equal liberty. Populist democracy (MacPherson, 1979: 93-115) envisages that freedom will emerge from participation in government which involves electing officials whose actions can reflect the **will of the people**. The exercise of one's (universal) franchise right is the manner in which the common will is revealed. An inherent tendency of populist democracy is seen as an orientation toward interventionism and concentrated political power. Such an orientation provides extended incentives for rent-seeking which diverts scarce economic resources from other, more productive activities. Under these conditions, there will be greater opportunities for interest coalitions to induce the State to grant to them contrived monopolies. Such 'rent-seeking' behaviour, which provides legally sanctioned monopoly profits, is generally accepted as being iniquitous to social welfare (Colander, 1984).

While both theories may claim that equal liberty is an ideal, the individualistic-democratic methodology of liberal democracy demands that a priority be placed upon this ideal by limiting coercion, whether by the State, by other groups, or by individuals. Coercive political means are identified which need to be avoided in order to promote individual liberties. Further, voting is viewed not simply in terms of participation to legitimise a government. In a liberal democratic context, voting is also seen as an important means of protecting freedom through (re)election and limited tenure of office holders. Those who offend voters must be at risk of losing an election. An inherent distrust of collective action is embodied within liberal democratic principles which would serve to inhibit rent-seeking behaviour.

In the subsequent analysis, numerous procedural flaws of populism will be identified and explored. An important conclusion which emerges is that populist democracy is consistent with an institutional framework which is most amenable to rent-seeking and authoritarianism. While many of these same implementation problems arise in all forms of democracy, they are exaggerated under populist democracy. Alternatively, the structure of institutions is examined with the aim of minimising problems associated with the procedural flaws and implementation of populist democracy.

Upon identifying these various problems in the populist model of democracy, an alternative constitutional framework based upon liberal democracy will be prescribed. Adherents of populist democracy are likely to seek innovations which prompt an enlarged political intrusion into the lives and livelihoods of citizens. Under liberal democracy an alternative set of rules is proposed with the



intention of constraining the actions of the State.

## **4.2 POPULIST DEMOCRACY**

As suggested above, populism purposively submerges individual rights into collective ones. Although the arguments need not be detailed here, it is worth pointing out that Rousseau's populist concept of government has been identified as the source of, and apology for, not only socialism but also the modern totalitarian state (Talmon 1952). Populist claims are in fact consistent with a broad range of variations of democracy - authoritarian, totalitarian, and otherwise. Hayek (1972, III: 128-152) warns of the dangers of 'unlimited democracy', especially associated with centralised political power.

Populist views lend themselves to increased encroachment of the use of political institutions in place of, say, the market, to determine economic outcomes. This momentum towards 'unlimited democracy' comes at the expense of voluntary associations. Without checks, these encroachments continue to undermine, and threaten complete eradication of, the protection of individuals from State coercion.

### **4.2.1 The Institutional Outcomes of Populist Democracy and The Freedom Charter**

An important and informative vision of the political economy of post-apartheid South Africa underpins both the Freedom Charter and its sister document, the draft constitution of the African National Congress (ANC). The following set of arguments examines the principles reflected in the content as well as those implicit in the drafting of these documents. The remarks are aimed specifically at providing insights into the evolving demands for a new political dispensation for South Africa.

It will be maintained that the political essence of the Freedom Charter is based upon a **populist** philosophy which is encumbered by numerous difficulties and limitations. The criticisms presented here are crucial inasmuch as the demands embodied in the Freedom Charter could be embraced in future proposals emanating from various extra-parliamentary opposition movements. Wide deviation from the Freedom Charter could place its supporters, the so-called **Charterist** groups, e.g., the United Democratic Front and the Congress of South African Trade Unions, in a political wilderness and perhaps cause irredeemable rifts in the extra-parliamentary opposition.

Examination of the ANC's draft constitution confirms its consistency with the Freedom Charter. The populist pedigree of the draft constitution is revealed in the first paragraph which calls for a **unitary** state. By implication, the form of the envisaged State is one of centralised and concentrated political power. A conspicuous priority is placed upon democratic **procedures** rather than freedom **per se**. While certain rights are described, aside from the expected inclusion of an unspecified Bill of Rights, discussion of guarantees of freedom only appears once in the entire document. It must be recognised that participation in democratic procedures (free and periodic elections; open franchise; open entry for parties, candidates and interests; majority or plurality voting rules) does not by itself provide effective guarantees from exploitation (Buchanan, 1987: 8). The maintenance of security and liberty requires explicit protection from coercion. This should be obvious given the large number of despotic socialist regimes as well as constitutional and democratic 'tyrannies' that exist, including the South African State in its present form.

#### **4.2.2 The Historical and Political Heritage of the Freedom Charter**

The Freedom Charter is probably one of the most important and influential political documents ever drawn up in South Africa, and has become a focal point of political statements which constitute a widely-held notion of how to direct the country in the aftermath of apartheid. It is unquestionably true that much of the debate over the future of South African politics is bound up in the rhetoric and baggage associated with the Freedom Charter. Drafted by a People's Congress, it is claimed that it is based upon a broad canvassing of the populace of South Africa. However, it contains demands for a variety of sometimes conflicting freedoms.

Nonetheless, the significance of the Freedom Charter may lie in its historical placement and in the emotive support it attracts rather than in its capacity to serve as an explicit constitutional model. This latter point is underscored by the draft constitution offered by the ANC which articulates its vision of an appropriate legal framework. Apparently this move was to redirect the debate within the context of a workable document rather than to haggle over an unworkable one. Also, the ANC's document provided an important opportunity for its constitutional views to be assessed by friend and foe.

The debate over the viability of the Freedom Charter ranges from a censorious view that it is a blueprint for socialism to a supporting view that its validity lies in the fact that it reflects **the will of the people**. The naivete of these various views renders them subject to serious challenge. It is surprising that it is not clear to all

who have read the Charter that it favours neither capitalism nor socialism at the explicit expense of the other. The point missed by the opposing sides in this discussion is not the intent of the authors nor the precise wording of the Charter. Rather, the more important task is to discern whether the implied means embraced by the Freedom Charter (populist democracy) can deliver the freedoms demanded and whether, in particular, it can restrain rent-seeking.

#### 4.2.3 Populism, Apartheid and the Freedom Charter

It is ironic that the opponents of the apartheid regime use a similar line of reasoning which serves as the apology for the political positioning of the National Party and its race-based policies. The political myths which are used to legitimise the National Party are embodied in this view of populist democracy. The artificial constraints on the franchise in South Africa notwithstanding, the centralisation of power and development of policy to reflect the will of the (white) 'majority' are consistent with the **means** of populist democracy, whatever the disagreement over specific policies.

Given that populism serves such diverse ends, and if these ideals as expressed in the Freedom Charter are illusory, then its unsuspecting adherents risk travelling down a foreseeably treacherous road. There are also problems of incongruities and internal contradictions in the wording and demands of the Charter; however, it will be left to the reader to discern these. A more important point which is addressed here relates to the promises and failures of populist democracy which provides the political basis of the Freedom Charter.

The term populism or populist democracy used here reflects reasoning consistent with a specific concept of freedom, i.e., **positive liberty** (Berlin, 1969). That is: (a) there exists a **general will** of the **people** which (b) can be observed, which in turn (c) must be reflected in social policy so that (d) the people are freed through the incorporation of their will in the law.

Thus, it should be seen that the process of drafting the Freedom Charter, its wording and the rhetoric of its supporters are the outcome of at least an implicit embrace of populist democracy. However, as will be proposed below, support for this 'people's mandate' is based upon questionable, perhaps spurious, arguments. This claim of spuriousness is not meant to assert that its stated ends are unworthy but rather that the ends are impossible to attain. In other words, populist democracy is neither equated to, nor does it necessarily generate, popular control of governments.

In the first instance, there are serious questions about whether the **general will** is merely a formal concept or if it has any empirical content. Secondly, if it is granted that this collective preference exists, the means for revealing it are at best severely limited and subject to numerous and perhaps insurmountable problems. Finally, the fallibility and unavoidable subjectivity of the values of the agents who must interpret and implement this will are a non-trivial consideration. An alarming prospect is that acquiescence to the populist principles behind the Freedom Charter may lead logically to the type of authoritarianism which the framers were seeking to remedy.

#### 4.2.4 Summary of the Implementation Failures of Populism

The characteristics of populist democracy and the populist process are discussed in Appendix A. The arguments there suggest serious flaws in the promises embodied in a populist democracy, viz, that **positive** freedom can be secured through democratic impulses to legislative bodies in order to enact a general will. Voting merely identifies a winner among those alternatives offered without revealing whether another outcome might in fact be more preferred. Acceptance of the myth of the populist ideal leaves the way open for a duly elected ruler to proclaim a mandate reflecting the people's will and, empowered by that mandate, to act in terms of what is asserted to be the collective will.

Citizens' demands for constraints on officials elected under populism will be viewed as intolerable obstructions which can be ignored or perhaps forcibly removed. Politics under populist democracy can easily degenerate to a support for the will of the few rather than the will of the many. The logic behind both the Freedom Charter and the ANC draft constitution could readily allow for the emergence of another constitutional dictatorship, not unlike what South Africa has at present. An unaccountable one-party **democracy** is but a populist fantasy. By recognising that the Freedom Charter (and the ANC's draft constitution) is based upon the concept of populist democracy, the harmful, unintended consequences of the implicit oppression can be avoided and the harmful effects of rent-seeking can be limited.

Here it might be useful to raise a very difficult question concerning the granting of a universal franchise. There are two separate issues concerning the rights and responsibilities of voting. First, the franchise must be extended with a minimum of qualifications, e.g., age restrictions but, second, the question of the limits which need be placed upon those issues which will be resolved on the basis of a political poll must be addressed. This point is discussed in Section 4.4.

#### 4.2.5 Populism and the Advance of a Rent-seeking Mentality

The essence of the political problem in this analysis has been consistently identified as State intervention, especially in the form of granting monopoly rights as manifested in legislation to regulate or to licence certain activities. Problems arise owing to the concomitant political insecurity concerning the politicised factors which determine the distribution of income and wealth. Under such conditions of uncertainty, politically inspired pressures emerge to demand an influence or control of non-economic factors as a means of manipulating economic outcomes. Impersonal mechanisms like the market give way to **command-determined** outcomes. Apartheid, although it seems to be a worst-case scenario of politically determined incomes, is but one variation of a general problem. New distributional coalitions are likely to replace old ones, for example, black trade unions, urban workers, political party members, and bureaucrats.

It can be seen, then, that populism is consistent with (a) the enlargement of State structures and (b) an increased tendency to resort to the conscious manipulation of economic positions on the basis of majority rule. Increases in the spheres of State activity and intervention undermine the framework of a free society by threatening the economic foundations of liberal democracy (Hayek, 1978: 105-118). South Africans are well aware that private ownership of printing presses does not guarantee freedom of the press. Conversely, it is just as clear that if the State controls the instruments of printing, it is certain that press freedom will not exist. Likewise, if meeting rooms are controlled there can be no freedom of assembly, and there will be no freedom of movement if the means of transport are controlled (Hayek, 1978: 149). Whatever the State provides financing for, it ultimately controls.

#### 4.3 LIBERAL DEMOCRACY

Usher (1981) provides historical evidence that all liberal democracies have been based upon a predominantly capitalistic economy. He further observes that radical shifts in the mode of production, e.g., toward a planned economy, have led to the destruction of liberal institutions. For example, 'bourgeois rights' tend to be denounced or destroyed and the 'untidiness' of the political competition of multi-party democracy is often replaced by a more 'orderly' one-party state. Finally, politicisation of social and economic processes adds increased uncertainty and contributes to economic instability. In turn, destabilisation of the economic base reduces the prospects for economic growth.



#### **4.3.1 Liberal Democracy and Power for People**

Liberal democracy is not consistent with every system of majority rule. Whereas majority rule and collective rights are the focus of positive liberty and populist democracy, the rights and freedoms of the individual are paramount to the concept of negative liberty and liberal democracy.

There are further requirements which include limits on the process of political dispensation consistent with a different definition of freedom, i.e., **negative freedom** (Berlin, 1969), which demands a minimum of coercion and is associated with the work of John Locke. Individual rights and liberty require protection both from the State and also from infringements based upon majority decisions (Dunleavy and O'Leary, 1987: 5).

Many of the failings of populist democracy can be avoided by adherence to liberal democratic prescriptions. Whether such an heroic leap is justified relates to the importance attached to individual freedom and whether one's accepted sense of justice is compatible with a populist-collectivist framework. In all events, liberal democracy does imply a much greater chance for removal/replacement of politicians or parties from power.

The above analysis provides a crucial background for understanding the possible future course for South Africa. The flaws in democracy are great, but are greatest perhaps in populist democracy. Nevertheless, counting heads is better than breaking them, and democracy - this fallible system revered by so many - remains our best means for a peaceful transition of power. Yet it must be remembered also that democracy is most effective when political factions are encouraged. Some amount of factionalism is needed to restrain majorities. Political competition is just as important to an effective democracy as is economic competition to the market. After all, majorities are simply coalitions of minorities and will be transient only if factions compete for power.

#### **4.3.2 Power for People Requires Restraints upon Governments**

Legislative and electoral politics involve problems which either lead to excessive growth of the public sector or contribute to an erosion of democratic principles. For example, bureaucracies are not passive actors: bureaucrats play an active role in determining the size of government budgets to fulfil their utility maximisation. Also, the pressures of electoral competition will induce politicians to direct a disproportionate share of resources towards well-organised, special-interest groups.

These problems will be exacerbated within a government based upon populist democracy. An alternative framework consistent with liberal democracy proposes:

- (a) political structures which aim to limit the concentration of power to any ruling clique,
  - (b) constitutional constraints on the fiscal process,
  - (c) reform of bureaucracies, and
  - (d) decentralisation of political power.
- These are discussed in Appendix B.

In following these prescriptions, individuals can gain greater control over fiscal and political affairs which, though part of the intent contained in the populist philosophy behind the Freedom Charter, is an unlikely result. It is important to understand that democracy was never intended to be an unlimited, anything-goes, free-for-all. Responsible democrats accept that stability and progress require that the temptation to enjoy the spoils of power is both inevitable and almost impossible to resist due to constituent pressures, individual temptations notwithstanding.

#### 4.4 RENT-SEEKING AND CENTRALISATION OF POLITICAL POWER

Lord Acton warned that **power tends to corrupt and absolute power tends to corrupt absolutely**. Power for people is only meaningful if individuals' rights to remove office-holders through voting can be guaranteed. Power for people comes through restraints upon the State and its agents whether by removing their power to detain individuals without trial or limiting their ability to confiscate/nationalise private property. Sovereignty of the individual will be greatest with devolution of power in a unified but not unitary state. The populist origins and content of the Freedom Charter (and the ANC's draft constitution) present the danger of an unintended continuation of the current authoritarian-type rule and an extension of rent-seeking.

The most serious indictment of populism would seem to be that apartheid is consistent with a particularly perverse populist interpretation of democracy. A political 'majority', in a situation of limited franchise, has been able to operate within a form of representative democracy to impose its will and legally transform a numerical majority into a powerless political 'minority'. On the other hand, rent-seeking allows an economic minority to impose the costs of narrowly beneficial public programmes upon the majority of society.

A peculiar set of problems emerges in the quest for a broad constituency to support the implementation of a model which so severely circumscribes the power of the State. After so much suffering which was coincidental with a lack of political rights and power, a black majority may be loath to accept that, upon acquiring the reins of power, this power would be so greatly diminished. However, this aversion to the diminution of political power in the hands of the majority requires a slight change in perceptions, perhaps a more refined understanding of the shortcomings and failures of representative democracy. It is of paramount importance that the rationale behind the model of liberal democracy be to restrain the actions of **any** majoritarian government, not merely to enfeeble a prospective black majority.

Such loathing might be remedied if the implications of the previous argument are accepted, that is, that the essential problem of apartheid is not that the minority lacks access to power. The arguments presented in this paper suggest that the essential problem of power under the apartheid regime was that there was too much power concentrated at the centre combined with the profound disregard for freedom of the individual from coercion and State exploitation.



## 5. CONCLUSION

Despite the practical lessons learned by the socialist economies, there are several ideological camps in South Africa which remain predisposed toward massive redistribution and socialisation of resources by future governments. In these days of **perestroika** and **glasnost**, such models of a post-apartheid South Africa seem strangely outdated. With the odd exceptions in Albania, Cuba and a few other countries, there is a drift toward more market-orientated economies and away from State interventions. In any case, the arguments presented above lay the blame for the injustices of apartheid at the feet of an interventionist-orientated political system. Neither the abuses of power of political regimes nor their ill-fated economic results are dependent upon any particular economic framework or attitude toward private property rights. Following this line of argument, the excesses of apartheid are not inescapably linked to the operation of the market as supposed by the radical-Marxian models.

This present study provides a new framework for examining the historical and causal determinants of apartheid. Rather than relying upon the loosely framed concept of **racial capitalism**, a general model has been offered which explains the rise and decline of apartheid and Afrikaner nationalism. The generality of the model is seen in its ability to analyse past, present and future (post-apartheid) developments. Neither revolution nor reform will effectively change the nature of the injustices within South Africa unless there is a fundamental shift away from centralised public intervention which allows for and encourages the ravages of rent-seeking.

The arguments presented above differ from and supersede the previous liberal-radical debate on the economic causes and consequences of apartheid. An institutionally-orientated analysis of the behaviour of individuals, in response to rent-seeking opportunities, provides a more general model to explain the inter-relationships between economic and political behaviour. For example, the economic theory of rent-seeking can be applied to explain interest-coalition behaviour of the **nomenklatura** and **apparatchiks** in the Soviet Union as well as within liberal (and not-so-liberal) democracies.

Neither side of the liberal-radical debate has examined the likelihood of the survival of the gross inefficiencies and injustices which are normally associated with the present apartheid regime. In fact, as asserted here, the principal problems associated with apartheid, i.e., unreasonable restrictions upon individual choice, can be anticipated to survive. The 'ethic' of State intervention *per se*,

is quite likely to outlive the current regime since it is reflected in the populist tendencies of both the Freedom Charter and the ANC's draft constitution.

Up to the present, the development of institutions in South Africa has followed a course similar to that taken post-independence by its African neighbours, i.e., institutional arrangements which encourage rent-seeking instead of profit-seeking. Most developing countries with former colonial attachments have carried on the system of privilege and sinecures associated with their reviled colonial masters.

To avoid continuation of the universally recognised inefficiencies and injustices which are generally associated with apartheid, and in the absence of implicit cultural restraints, explicit institutional, e.g., constitutional, restrictions upon rent-seeking behaviour must be designed and implemented. Recent net improvements in the economic position of blacks have been the result of institutional changes, e.g., deregulation, which have promoted profit-seeking as a means of enrichment in place of rent-seeking. The development of appropriate institutional frameworks would encourage profit-seeking and a social surplus rather than the social waste generated by rent-seeking.

## APPENDIX A - PROBLEMS OF POPULIST DEMOCRACY

### A.1 DISTINGUISHING CHARACTERISTICS OF POPULIST DEMOCRACY

#### A.1.1 Questions Concerning the Concept of General Will

Objections concerning the existence of a general will can be raised on subjectivist/individualist grounds. Associated with these objections is an epistemological problem, namely, what Hayek (1945) identifies as the **knowledge problem**. Hayek questions whether it is possible for such information to be gathered let alone to be assimilated by one mind when such intelligence is derived from so many individual sources. Claims of the existence of such a 'harmony of rational wills' seems a dubious claim, or at best it is a concept which is made extremely slippery by the effect of time upon changing tastes, ideas and knowledge. Even if a momentary indication were possible, it would have no permanent validity.

#### A.1.2 Epistemological Problems and the General Will

The analysis continues from the above premise that individual value systems are subjectively chosen. These values are also in a constant state of flux due to the unforeseeable availability of new information which becomes part of the individual's calculation process (LaVoie, 1985: 51-92). Therefore, knowledge of means and ends is both widely dispersed and unstable over time. These two characteristics of knowledge and its formation make it impossible for one mind or a sub-set of minds to interpret a consistent general will. This is not merely a technical problem to be overcome by super-computers; it implies that in a dynamic setting, it is impossible to carry out a compilation of knowledge in a useable and concentrated form (LaVoie, 1985: 85). (This same argument can be extended and applied as a non-normative indictment of the efficacy of centralised decision-making.)

Information used by politicians and planners of necessity reflects a generally static and merely a narrow set of interests. Aggregation by its very nature assumes away differences, seeks a common denominator and ignores important disparities in the quality and quantity of information which is nonetheless available to each concerned individual actor. To worsen matters, the institutionalisation (bureaucratisation) of a particular solution in the form of public policy, tends towards inflexibility and slow adaptation to change. Such problems are compounded further by the infrequent voicing of preferences under representative democracy.

### A.1.3 Problems of Revealed Social Preference

Problems of social preferences also emerge from a pragmatic rather than an epistemological perspective. Suppose that a **general will** does exist. Certainly, a precondition for the full promise of populist democracy to be met is that there must be a means of revealing and interpreting such collective preferences, e.g., voting in some form or another. Crucial fallacies in the populist ideal will be revealed by examining well-known conclusions drawn from the theory of social choice, also known as the theory of voting (Bonner, 1986).

The first and most conspicuous complication arises in how to select the **best** voting rule. It should be transparent that the selection of the voting rule will affect the outcome of any vote just as much as would control of the agenda. Unfortunately no objective standard exists to inform us which scheme best reveals the supposed general will. There is not even a consensus on what are the appropriate ends to be served by the **best** scheme. For example, should it be most efficient or least costly or be least vulnerable to strategic voting or voting cycles?

The issue of voting cycles relates to a situation where majority-rule elections of issues/candidates are unable to reveal a clear, consistent winner. In such situations the outcome substantially can be determined not by the expression of the members of the electorate but predetermined by the person(s) who sets the electoral agenda (Holcombe, 1985: 49-52).

These disappointing predictions suggest inconsistent results and paradoxes which will depend upon, among other things, vote-trading and manipulation of the agenda. Vote-trading or strategic voting occurs, e.g., when a voter selects a second-best alternative when the preferred option has little or no chance of winning. Similarly, a simple case of agenda manipulation occurs when the generally preferred opposing candidate/issue is excluded from the ballot. A more extreme case involves the listing of a single candidate/issue, as in many one-party states. In neither instance can the revealed preferences possibly reflect the so-called **general will**.

An electoral process is unlikely to guarantee the discovery of a citizen's entire set of preferences or the specific ranking or the relative intensities of such preferences. Even if these results could be observed, they would be subject to subjective interpretation by whomsoever would be charged with such a duty. Unless one accepts that public officials act only in a well-defined sense of public interest, the construction of political institutions based upon such interpretations involves substantial risks.

Just as there are numerous voting rules which might be utilised to determine social preferences, there are numerous strategies which individual voters might pursue. The most familiar of the former are majoritarian, plurality, or unanimity voting rules. (Many other more complex rules can be suggested, but these more familiar ones should suffice for the present discussion). The latter involves log-rolling or vote-trading among other strategies which tend to obscure rather than reveal the true preferences of voters.

It should be clear that conventional democratic procedures are best suited to the task of merely settling issues which involve one-dimensional questions such as whether to increase or decrease expenditures upon covert military activities. The more difficult and normally more interesting questions (in the previous example, whether covert activities should be funded at all!) are not easily settled with a normal ballot. More complex issues require more discussion, even compromise, than allowed by a binary, yes-no selection. Oversimplified lumping of complex political issues is most likely to emerge in a unitary system as demanded in the populist framework.

#### **A.1.4 Populist Democracy and Centralist Tendencies**

Inherent in the implied model of populist democracy is a tendency toward centralisation of government functions. The development of centralised bureaucratic structures and the complementary collectivist impulses are likely (in the absence of explicit constraints to the contrary) to involve an ever-broadening set of inhibitions upon individual actions.

Many of these inhibitions are prompted by claims for economic as well as political equality. Much State intervention is justified on the basis that the enjoyment of equal rights is vitiated by economic inequalities, especially in the case of gross inequalities. Populist democracy is thus compatible with, and in fact encourages, the type of centralisation of economic processes which are characteristic of socialism. Unfortunately, this logic is also capable of providing an apology for extreme cases of, for example, despotic socialism with massive State intervention in every aspect of life.

#### **A.2 AN ECONOMIC ANALYSIS OF PUBLIC POLICY FORMATION**

The final stage of the populist process requires an effective implementation of public policy as a reflection of the general will. Developments in public choice theory reveal that neither benign nor beneficial outcomes derived from rational,

democratic choice processes can be taken for granted (McLean, 1987). Public choice theory has provided extensive analysis of political behaviour in representative democracies. As discussed in Section 2, this is accomplished by treating politics as a process of exchange and extending the familiar assumption of individual maximising behaviour to include political agents. For example, politicians and their parties are modelled to behave as vote maximisers. This 'vote motive' model reveals critical complications in the process of political representation (Tullock, 1976). In particular, public choice theory has revealed how individual motivation will hinder political processes and government programmes from operating in an efficient (Pareto optimal) manner.

In a representative democracy, voters' preferences are indicated through a process where elected representatives select policies which are meant continuously to reflect the will of the constituency. Public choice theory points to a number of weaknesses in the links between voters and their interests and the selection of public policy by their representatives (Buchanan, 1978). Many, if not most, of these breakdowns in the transmission of citizens' preferences into public policy are simply a limiting function of representative democracy. The transmission failures imply serious flaws in the use of democratic procedures to generate socially desired outcomes.

#### **A.2.1 Rational Ignorance and Political Participation**

In the democratic process citizens will exercise rational choice (cost/benefit comparison) and remain ignorant of certain or even most political issues. While such choices to remain ignorant also emerge in a market setting, the absorption of direct costs by the individual chooser provides a 'natural' check on such behaviour. In a political setting **rational ignorance** is likely to create more pervasive costs and so substantially weaken the link between voters' preferences and the final outcome of political decisions. In particular, rational ignorance makes citizens easy prey for politicians, for example, who disguise their views on a particular issue before a potentially critical audience in a bid to win their support while shifting positions later before another, different set of constituents. Such poorly informed voters are not likely to generate a meaningful indication of a general will due to their own rational choice pattern.

On the other hand, the unwillingness to cast one's vote (voter apathy) can be understood partly in terms of an opting out of the necessary efforts for improving political literacy. While it is considered with alarm by other social scientists, the apparent apathy is seen by many economists as nothing more than rational, calculating behaviour. In fact, one paradox of voting implies that large-number

elections reduce the incentive to vote (Mueller, 1987). Given the low probability of one's vote affecting the outcome, the costs (queuing, information costs) will outweigh expected benefits of voting. Thus, many well-informed individuals will find it, on balance, simply too 'costly' to go to the polls despite the minimal requirement of outlays of time and effort. Perhaps an equally interesting question might concern why so many, not so few, people bother to vote in a large-number election. A Catch-22 situation may exist since it could be argued that those who do not vote are actually more knowledgeable about political processes than those who do! These transparent ill-effects of political illiteracy and low levels of participation are likely to be compounded due to carefully manipulated electioneering of opportunistic politicians who must attract the most votes to remain in or to gain public office.

#### **A.2.2 Special Interest Coalitions**

Special interest groups compound the above problems (McCormick and Tollison 1981). Due to the concentration of benefits of a policy for a particular group, and given the wide dispersal of associated costs, e.g., agricultural price support schemes, interest groups are able to capture a disproportionate share of political influence. The consequence of such political lobbying is that economic resources are directed toward a political minority at the expense of the majority. Interest coalitions have a much greater incentive to organise voting blocks in contrast to the mass of ordinary consumers who are unorganised and who thus individually face a low cost of (and hence small payoff from opposition to) such politically determined redistributions (Olson 1971).

The politician in a representative democracy will be well aware of how the vote can be used as an instrument of punishment (reward) by special interests for ignoring (supporting) them. Thus, politicians are vulnerable to well-organised pressures since the requirement to attract votes is so strong that it overrides other considerations (Anderson and Hill, 1980). The nexus between voters' preferences and the actions and accountability of democratically elected politicians can be tenuous indeed.

#### **A.2.3 The Modern Economic Theory of Bureaucracy**

This section expands some of the points made in Section 2.2.2 above. Bureaucracy is yet another source of disequilibrium in the democratic process. A modern theory of bureaucracy replaces an outmoded and naive public-interest notion of the behaviour of public officials and assumes them to be like other maximising, self-interested individuals (Niskanen 1971). Their behaviour is then analysed in

a game-theoretic context where the players are identified as the bureaux and their sponsors.

Bureaucrats are expected to pursue their own interests perhaps indirectly by serving the interests of lobby groups which petition them. Incomes to bureaucracies are based upon neither sale of output nor profits. Without an objective measure of performance, the sponsor (usually a government) will be dependent upon the bureaucracy for information concerning budgetary requirements. Economists refer to such a situation as a bilateral monopoly. The sponsor has control over the purse strings yet the bureaucracy has a monopoly over relevant information.

In such a game-theoretic, strategic setting, individuals in a bureaucracy are able to 'capture' the sponsor and provide only such information as will lead the budget setters to maximise the size of the bureau, and thus their budgets. Budget maximisation is likely since it is consistent with most other motives of individual bureaucrats. For example, budget maximisation will enhance prestige, job security, salaries and perquisites. Parliamentarians charged with responsibility for budget approval are at a disadvantage in attempts to control bureaucracies due to a comparative disadvantage in access to information and lack of expertise in the details of the bureaucracies' functions. Bureaucrats will find it an easy task to furnish confounding arguments against attempts to reduce their budgets. If this model is accurate then it will be likely that the anticipated benefits to the public will fall short of the actual costs of maintaining a given bureaucratic structure.

In summary, the characteristic result of the provision of goods by bureaucratic structures tends towards: (a) over-supply and an internal inertia for bureau growth, and (b) a waste of resources through process inefficiency due to a 'defective' incentive structure.



## APPENDIX B - LIBERAL PRESCRIPTIONS FOR CONSTRAINING UNLIMITED DEMOCRACY

The substance of the Freedom Charter has been argued to lie within the weaknesses inherent in the populist ideals reflected in that document. For instance, epistemological arguments challenge the premise of a practical notion of general will. Secondly, evidence from the theory of voting casts doubts on the results and durability of populist-based expressions. Finally, it can be shown that there are substantial weaknesses in the links between voters' preferences and the formation of public policy. Neither politicians nor bureaucrats can be expected to act selflessly (as 'economic eunuchs') or solely in the interests of the public. Even if their intentions are 'pure' there is no guarantee that the results will be a clear reflection of collective preferences as is the intention behind representative democracy.

Arguments concerning these weaknesses must be taken seriously. If they are upheld, they must be taken into account within any blueprint for a post-apartheid framework in order to obviate the continuation of the type of exploitation familiar under the current regime.

Individual freedom and protection from exploitative coercion are assigned primacy in a liberal democratic framework for several reasons. Most important, both equality and justice are slippery concepts. The relativism of justice is obvious if one considers that, undoubtedly, antagonists on each side of every war or conflict were convinced they were fighting for a just cause (Albert, 1987: 73). Problems of this relativism are compounded when considering the interdependency between justice and equality. Ross (1958: 270) points out that, "...the demand for equality must...be understood in a relative sense, that is, as a demand that like shall be treated in a like manner. This means that as a prerequisite for the application of the norm of equality, and independent of it, there must be some criteria to determine what is to be considered as equal". Since both justice and equality can be interpreted in any number of ways, political entrepreneurs can provide different definitions which will have substantially different results for the social order.

One of the greatest temptations of modern representative governments is to apply standards of distributive justice and to implement policies to prosecute this ideal. (One of the conclusions of public choice theory is that much of what passed off as redistribution to serve the 'public interest' is simply redistribution to favour some special interest group.) This 'welfarist' mentality has been encouraged by neo-classical economic analysis of so-called market failures. Under special

conditions, e.g., 'natural' monopoly, externalities, and public goods, State intervention was both necessary and sufficient to correct these failures. Political agents were assumed to be both omniscient and selfless. However, it has been argued above that either power is likely to be subverted to serve the narrow ends of politicians, or the rent-seeking behaviour of special interest groups will lead to an instability and greater uncertainty of an individual's economic position. Profit-seeking is discouraged and entrepreneurial energies are directed instead toward rent-seeking, i.e., the development of politically contrived monopoly rights (Holcombe, 1983). Instead of market determination of income and ownership, economic outcomes become politicised and subject to majoritarian whims.

One particular aspect of the 'welfarist' mentality is the imposition of distributive justice over commutative (civil) justice, i.e., justice of property rights (Vaubel, 1987: 95). Distributive justice involves justice of giving (taking) within a collective organisation in order to achieve a selected pattern of distribution. The focus is not upon the justness of rules or procedures but upon the justness of outcomes or end-states.

Commutative justice is consistent with a protective State rather than the type of interventionist State required to prosecute distributive justice (Ibid.). The logical structure of commutative justice is a set of 'negative' rules prohibiting actions which infringe upon the liberty of others. Three basic principles underpin commutative justice: (1) compensation for damage, (2) inviolability of property, and (3) freedom of contract. The costs of distributive justice are reflected in the violations of these principles as summarised below.

A special problem relating to the consequences of redistribution and State intervention is that political assignment of either income or an individual's economic position in society can be expected to lead to:

- (a) economic organisations which are no longer consistent with continuation of democratic government (Usher 1981), and
- (b) the decline in the capacity for economic growth (Olson, 1982; Mueller, 1983).

In the light of these problems of 'public policy failure', it has become more apparent that constitutions must be devised which safeguard individual rights and freedoms from arbitrary government. Therefore, effective restraints need to be placed upon the exercise of the political (majoritarian-utilitarian) determination of individuals' incomes to overcome the instability and attendant distortions upon economic behaviour. Such distortions are likely to limit private investment decisions and thus reduce real economic growth. In the absence of restraints on political excesses imposed by implicit historical or cultural values, formal rules

must be outlined explicitly in a constitution. These steps are designed to limit arbitrary encroachments by the State or by an expansion of outcomes which are determined by majority rule and which destroy individual rights (Brennan and Buchanan, 1986; and Hayek, 1982).

## **B.1 POLITICAL CONSTITUTIONALISM**

The survival of liberal democracy requires certain political components, e.g., multi-cameral legislature, separation of powers ('checks and balances') between executive and legislative branches, an independent judiciary, decentralisation and division of authority between local and central governments, and limited tenure of officials with regular elections under universal suffrage (Riker, 1982: 142). As it is clear that many of these conditions are present in South Africa, the full implementation of these rules is necessary in order to ensure circulation of leadership as a means of minimising concentration of power and weakening the grasp of entrenched interests.

### **B.1.1 Political Arguments for Decentralisation**

Fragmentation of political authority, e.g., a federal model, avoids the numerous problems associated with a unitary state. First, a unitary state implies a concentration of power at the centre which is more easily captured and maintained by a single set of interests. Second, the clustering of often disparate issues leads to oversimplified political balloting. The greater the centralisation of political power, the more passive will be the administrative checks on bureaucrats' demands for larger budgets. Finally, governmental structures will be forced into a competitive situation. In other words, local public goods and services must be provided efficiently in relation to the tax charges in order to maintain an adequate tax base. Therefore, Wicksellian agreement (unanimity) which mirrors market outcomes is more important than cost-benefit definitions of efficiency. Without agreement there can be no stability regardless of whether efficiency is obtained.

### **B.1.2 Issues Relating to a Bill of Rights**

The abject neglect of rights and freedoms in South Africa is an important part of the impetus behind the interest in the concept of a Bill of Rights. However, there are some important related issues which require clarification before unqualified support may be granted to such a scheme. Interestingly, a National Party proposal would, in essence, be very similar to a Bill of Rights formulated by, for example, a Charterist group.

Both of these formulations would replace the traditional, liberal concept of **individual** rights with **social** rights. In the event that the Bill of Rights of the US Constitution is to serve as a model for South Africa, such a shift violates the basic premise of the former. Social or group rights would dilute the meaningful assertion of individual rights and freedoms. Collectivist-interventionist concepts of 'rights' contradict the ideals of individual liberty and economic freedom.

Hayek (1982: III,110) offers another critique of a written Bill of Rights which exists without commitment to an ideal of individual freedom. He suggests that singling out of certain specific 'rights' for protection in a Bill of Rights implies that, in other circumstances, a government may apply coercion without being bound by more general rules of law.

Finally, it is necessary to recognise that a Bill of Rights is merely a document drawn up by one particular government which can be altered by a successor. Without a commitment to some fundamental precept, e.g., the primacy of individual liberty, there is no guarantee of permanence of the protection from exploitation which is the unreserved (if undefined) goal of all opposition groups.

## **B.2 ECONOMIC CONSTITUTIONALISM**

The differences between public choice and neo-classical analysis become quite distinct in the subsequent discussion. In the first instance, the attitudes of public choice theorists about the ability of functionaries of the State to generate efficient outcomes are much influenced by Hayek's work (1945). Hayek highlights the limits of the mind due to the fact that the future is quite simply unknowable and that information is dispersed and in a constant state of flux since means and ends can be known only to each individual. Thus, no single mind nor a subset of minds can possess or process an adequate amount of information to satisfy all individual goals.

Electoral competition does not guarantee adequate control over taxing and spending policies. To strengthen these political constraints certain economic features should also be written into the constitution which determine the State's power to attenuate private property rights and how it uses these resources. One of the most salient conclusions drawn from the whole of public choice analysis is the need for and nature of a **fiscal constitution** whereby limitations are placed upon public authorities' tax and spending decisions (McKenzie, 1984). Constitutionally assigned fiscal limits can take the form of either procedural or quantitative restrictions (Buchanan and Flowers, 1987: 141-49).

### **B.2.1 Procedural Limits**

Such constraints are based upon the indirect control over political decision-making in order to constrain taxation and outlays through a system of rules and procedures. Such rules would moderate the political structure within which fiscal decisions are made. For example, qualified majorities might be required for the passage of taxing and spending legislation to minimise the potential for **fiscal exploitation** of the majority by minority, special-interest coalitions. A precept of fiscal generality would imply favouring proportional, comprehensive schemes of income taxation and eliminating much of the lobbying for special tax concessions. Balancing of the public-sector budgets will place an important constraint upon both taxing and spending.

Several other questions arise concerning procedural rules which might also be addressed under political constitutionalism. It is undoubtedly important to be concerned with how changes in these rules occur and who is charged with changing them. If such rule changes are based upon a majoritarian outcome, the problems associated with representative democracy arise. How often these rules might be changed is also of interest since there are some observable benefits associated with stability of rules.

### **B.2.2 Quantitative Constraints**

Specific limits upon public sector size might be imposed which directly affect the prospective results of tax and spending policies. Public outlays and/or revenues might be expressed as a specific share of some aggregate measure of the performance of the economy, e.g., GDP.

Constraints on the tax base are another indirect restraint. Following the lead of Proposition 13 in California, tax rates could be set at a prescribed limit. Finally, the size or proportion of public debt in relation to overall economic activity will likewise place constraints on the fiscal operations of the State.

### **B.2.3 Reform of Bureaucracies**

A related problem concerns a reform of the nature of bureaucracies to increase control over them and to improve their efficiency. Aside from explicit privatisation, there are several other methods. Niskanen (1971) suggests changing incentive structures either in terms of rewards for improved efficiency, e.g., cost

cutting, to bureaucrats, contracting out, or full-scale privatisation where appropriate.

#### **B.2.4 Economic Arguments for Decentralisation**

Bureaucracies are easier to control within a decentralised (e.g., federal) system. A devolution of power and fragmentation of government operations introduce competition into the production of publicly supplied goods and services. Citizens have an option which goes beyond the ballot box. They can express their 'exit option' and voice their disapproval (Hirschman, 1970) of public-sector goods and services relative to the tax levels by 'voting with their feet' (Tiebout, 1956). In the absence of 'group areas'-type restrictions, choice of migration among decentralised jurisdictions provides a carrot and stick effect via the impact upon the tax bases. Therefore, it can be argued that decentralisation of political power expands freedom of choice and encourages a more efficient operation of government agencies.

The decentralisation argument also relates to the question of a unified state which is a catch-word in the 'progressive' vocabulary and which appears in the ANC draft constitution. Assuming that the principal intent behind this idea is to reunite the whole of South Africa, perhaps a more appropriate term would be a **unified state**. The goal of reuniting the various bits and pieces do not require that the central government be empowered with exclusive sovereignty. In order to avoid the concentration of power in a centralised state, a strong case is made for the devolution of power within a federal, power-sharing framework.

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