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THE SOCIAL FRAMEWORK OF  
ECONOMIC DEVELOPMENT IN  
A DUAL SOCIETY:  
THE CASE OF SOUTH AFRICA

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"I should like to emphasise the importance of organising life in accordance with the Principle of Economy and to add that if we would diminish the incidence of evil we must subordinate human activities to control by this Principle. If we would do this and halt the current pseudo-orthogenetic drift toward internal struggle and disunity, we must bring human activities much more under the empire of an unfettered price system" -

Joseph J. Spengler (1)

That the economic growth that has taken place in South Africa since the diamond and gold "explosion" of the 1870's and 1880's and, particularly, since the establishment of the Union in 1910 has been sustained and prodigious is not in doubt - though there has been an obstinate and not insignificant slowing down in the rate of economic activity in the last five years or so, about which more will be said presently.

By way of illustration, some of the principal growth indices over the fifty years or so since Union are summarised in Appendix I.

However impressive these figures may appear, it must be remembered that they are aggregates and, as such, can tell us very little of the structural changes and the dynamic forces, both economic and otherwise, underlying the broad expansionist tendencies. It is precisely because of the manifold influences at work in the process of economic advancement in our society that I have felt impelled to cast the title of this paper as widely as I have done. Perhaps, too, there is an element of self-defence here, in advance, against the charge sometimes preferred by anthropologists and sociologists that economists do not take adequate account of "social" or "institutional" or "cultural" factors in the study of economic growth - even

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(1) "National Goals, Growth, and the Principle of Economy", in Goals for Americans (The Third Duke American Assembly, Durham, N.C. 1961), p. 24.

if I find it difficult to concede the point. (1)

But what I do concede at once is that I am taking it for granted in the ensuing discussion that economic growth, in the form of higher per capita real incomes, is generally desired in South Africa. This is a very large assumption, but I believe it to be consistent with the aspirations of all the major groups in our society. I would go further, and say that the growth and diffusion of the desire for a common minimum standard of living is an outstanding feature of the post-war world. In a sense, for perhaps the first time in the history of the modern world, a universal goal is gradually evolving. Even in cultures traditionally based on an ideological system that stresses other-worldliness, the desire for change in this world seems to be constantly increasing. And the desire for such change has itself become a spiritual force of great importance in those regions of the world. (2)

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- (1) I believe it is fair to say of economists, in general, that they have explicitly recognised the importance and relevance of what are sometimes called the "non-economic" factors in economic development, both for empirical and theoretical research and for policy-making purposes. One can scarcely accuse Duesenberry, or Spengler, or Kuznets, or Hagen or Hirschman of failing to appreciate that, for example, entrepreneurship, technological innovation, capital formation, labour transfers or the organisation of production and distribution depend upon and interact with a complex social matrix. (See e.g. James S. Duesenberry, "Some Aspects of the Theory of Economic Development", Explorations in Entrepreneurial History, III (1950), 63-102; Joseph J. Spengler, "Theory, Ideology, Non-Economic Values, and Politico-Economic Development", Tradition, Values and Socio-Economic Development (Duke University Press, 1961), 1-56; Simon Kuznets, "Toward a Theory of Economic Growth", National Policy for Economic Welfare at Home and Abroad, ed. R. Lekachman (Garden City, U.S.A. 1955); Everett E. Hagen, "The Process of Economic Development", Economic Development and Cultural Change, V (1957), 193-215; A. O. Hirschman, The Strategy of Economic Development, (Yale, New Haven, 1958.)
- (2) On this, see Wilbert E. Moore. "Creation of a Common Culture," Confluence, IV (1955), p. 229; and Wilbert E. Moore and Arnold S. Feldman, eds., Labour Commitment and Social Change in Developing Areas (Social Science Research Council, 1962), notably Chs. i and iv. Joseph J. Spengler, (op. cit) arguing that a minimum value consensus is a logical necessity of a viable social order, points out that common values may be given specific ideological explication and thus serve as direct incentives to appropriate action.

Although it may not be possible to state in detail the specific content of the goal of economic development, it undoubtedly includes a certain minimum economic standard, particularly in regard to the material conditions of life. This being so, the type of change required is to a considerable extent (though by no means, entirely, of course) change in socio-economic institutions.

To understand the possibilities of such change in this country, or the extent to which it may in fact be taking place, with all that that implies for the different classes of its population, it is necessary to know something of the essential dualism of our social and economic order. It is my submission that what may be wrong about some current prescriptions for raising living standards in this country stems from a faulty or insufficient appreciation of the dual character of the economy.

This characteristic of many of the world's under-developed or developing countries is much in evidence in current studies of economic growth. It is described by Hirschman as "the prolonged co-existence and cohabitation of modern industry and of pre-industrial, sometimes neolithic techniques." (1) The notion itself originated with a Netherlands East Indies civil servant and (later) professor of Eastern Economics at Leiden University, J.H. Boeke, who restated and elaborated his special "dualistic theory" of under-developed areas a few years before his death. It is to be noted that although his theory was based largely on Indonesian experience, Boeke thought that it had general application. He formally defines a dual society thus :

"Social dualism is the clashing of an imported social system with an indigenous social system of another style. More frequently the imported social system is high capitalism. But it may be socialism or communism just as well, or a blending of them." (2)

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(1) A. O. Hirschman, op. cit., p. 125.

(2) J. H. Boeke, Economics and Economic Policy of Dual Societies (New York, 1953), p. 4.

This dualism, he says, is a "form of disintegration which came into existence with the appearance of capitalism in pre-capitalistic countries;" (1) and he goes on to say that "...it is to be hoped that with the obtaining of national sovereignty the true character of economic dualism will be acknowledged sincerely and logically, for its negation is decidedly not to the interest of the small man." (2)

A dual economy has several characteristic features. One of these, according to Boeke, is "limited needs," in sharp contrast with the "unlimited needs" of a Western society. Thus, "... anyone expecting western reactions will meet with frequent surprises. When the price of coconut is high, the chances are that less of the commodities will be offered for sale; when wages are raised the manager of the estate risks that less work will be done; if three acres are enough to supply the needs of the household, a cultivator will not till six; when rubber prices fall the owner of a grove may decide to tap more intensively, whereas high prices may mean that he leaves a larger or small portion of his tappable trees untapped." (3)

In other words, the Eastern economy, in contrast to the Western, is characterised by backward-sloping supply curves of effort and of risk-taking. Boeke noted also the almost complete absence of profit seeking and of entrepreneurship in an Eastern society (industry is characterised by "aversion to capital" in the sense of a "conscious dislike of investing capital and of the risks attending this"); and, because of the big differences involved, held that Western economic theory was totally inapplicable to underdeveloped areas. He was particularly critical of any attempt to explain the allocation of resources or the distribution of income in terms of the marginal productivity theory, mainly because of the considerable immobility of resources in an economically backward society.

(1) Boeke, "Three Forms of Disintegration in Dual Societies," Indonesië, Vol. Vii. (1954), p. 282

(2) Boeke, Economics and Economic Policy of Dual Societies, p. 20.

(3) Ibid., p. 40.

This view of the nature of under-developed areas led Boeke to pessimistic conclusions on policy. The kindest thing to do is to leave the under-developed areas alone. "We shall have to accept dualism as an irretrievable fact," (1) he says. And the acceptance of it leads to two policy conclusions: "first that as a rule one policy for the whole country is not possible, and second that what is beneficial for one section of society may be harmful for the other." (2)

What can one say in a few words about this theory? Clearly, there can be no question as to the phenomenon of dualism. It is one of the distinguishing features of under-developed countries. Nearly all of them have two clearly differentiated sectors : what Arthur Lewis has called a "capitalist" sector and a "subsistence" sector. "The capitalist sector is that part of the economy which uses reproducible capital, and pays capitalists for the use thereof." (This coincides with Smith's definition of productive workers, who are those who work with capital and whose product can therefore be sold at a price above their wages)"... The subsistence sector is by difference all that part of the economy which is not using reproducible capital." (3) Output per head is lower here because "it is not fructified by capital." Lewis goes on to talk of an island or islands of expanding capitalist employment surrounded by a vast sea of subsistence workers.

But, if the phenomenon of dualism is widely accepted, Boeke's explanation of it is not. Higgins epitomises much of the criticism when he says that "He (Boeke) thought it had to do with the nature of the society, if not actually of the people themselves, /whereas/ dualism is more readily explained in economic and technological terms; and this explanation withstands scrutiny better than Boeke's sociological explanation." (4)

(1) Boeke, "Three Forms of Disintegration in Dual Societies", p. 289

(2) Ibid., p. 289.

(3) W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour", The Manchester School of Economic and Social Studies, May, 1954, pp. 146/7.

(4) Benjamin Higgins, Economic Development (Norton, New York, 1959), p. 281.

It is to be hoped that that is so for, if Boeke were right, all our efforts to produce a take-off into sustained growth in under-developed countries through rigorous development programmes would be doomed to failure.

In sum, the explanation of "technological dualism", which is claimed to be borne out by the actual experience of the past, runs something like this: Assume an economically backward country into which industrial investment of one kind or another is introduced, but which does not typically provide opportunities for the productive employment of the whole population. There are then two sectors, an industrial (e.g. plantations, mines, oil-fields, refineries, etc.,) and a rural sector engaged mainly in producing foodstuffs and simple handicrafts. The first sector is capital-intensive and is characterised by relatively fixed technical coefficients of production (i.e. fixed proportions in which factors of production must be combined), or is assumed by entrepreneurs to be so. The other sector has variable technical coefficients, that is, the products can be produced with a wide range of factor proportions. The two factors are labour, on the one hand, and capital (including improved land), on the other.

The industrialisation generates a population explosion but, because of the actual or accepted fixed technical coefficients in the industrial sector, employment opportunities do not occur at the same rate as the growth of population. So far from bringing a shift of population to the industrial sector, apart from the relatively short-run impact, industrialisation may even bring a relative decline in the proportion of total employment in that sector. Thus more people have to seek a livelihood in the more primitive sector. Technical coefficients being variable, production in that sector becomes increasingly labour-intensive until a point is reached where all available land is cultivated and the marginal productivity of labour falls below zero even with the most labour-intensive techniques available. As population increases, so disguised unemployment sets in. And the net effect tends to be to widen progressively the disparity in the living standards of the two sectors.

The tendency towards disguised unemployment in the rural sector is enhanced with every technological advance that takes a form favouring the capital-intensive sector. It is further enhanced, one may point out, if wage rates are kept artificially high by trade union activities or by government policy. Industrial wage rates which are high relative to productivity provide an incentive for the introduction of labour-saving devices and consequently diminish still further the capacity of the industrial sector to absorb the population growth.



A study of under-developed countries reveals that the proportion of the total labour force working on the land is virtually a measure of the degree of under-development. If it is true that techniques are usually advanced and productivity high in the industrial sector, but labour-intensive, simple and with abysmally low productivity in the rural sector, why does labour not shift more than it does from the latter to the former, as economic theory would suggest? And why does industrial capital not flow into agriculture? After all, according to orthodox theory the marginal productivity of capital ought to be higher in the rural sector, where the ratio of labour to capital is high, than in the industrial sector, where it is low.

This is perhaps the most vicious of all the vicious circles encountered in the study of under-development. Labour does not flow into the industrial sector faster than it does because the supply of capital there is limited and because technical coefficients are fixed, or thought to be so. And the supply of domestic capital to the rural sector is also limited. It is not directed towards improving techniques because, although the elasticity of substitution of labour for capital may be high, that of capital for land is low. Relatively small amounts of investment in tools, irrigation or fertilizers could bring the marginal productivity of capital down to zero, given the prevailing ratio of labour to land.

In such circumstances it seems quite clear that the only way to overcome the redundancy of labour in the undeveloped sector is to increase the supply of the scarce factor - capital. But it is well to bear in mind, at the same time, that the immediately scarce factor is land. The only way to raise the marginal productivity of capital is to increase the ratio of land to labour, and substantially so. The average family landholding will have to be increased to a point where mechanisation becomes economic if capital's marginal product is to be raised to any significant extent. With high population densities this can be achieved only by inducing people to leave the land for the industrial sector. And for any such programme capital once more becomes the scarce factor. Heavy investments in both the industrial and the agrarian sectors are required. Neither agricultural reform of the backward sector nor industrialisation will, by itself, break through this particular vicious circle. When countries are in the sort of situation envisaged here, only a carefully co-ordinated large-scale development programme on both fronts can hope to launch them on a course of cumulative betterment for all.

Now, this is all very well, you might say, but suppose we do not accept the kind of technological dualism just presented. Suppose, for example, we reject the idea of a population explosion following upon capital investment in the under-developed economy. In that case let us examine, albeit briefly, and almost inevitably in a somewhat over-simplified manner, another variant of the economic dualism thesis, that made famous by Arthur Lewis <sup>(1)</sup> almost a decade ago, and see what its policy implications amount to.

This model postulates a subsistence economy in which there are, from the start, unlimited supplies of labour. (Skilled labour may be a temporary bottle-neck, but the capitalists will soon enough train workers to the required degree of skill). Capital investment is introduced, so that henceforth the economy is in two parts, capitalist and subsistence. The capitalist enclave will be able to obtain its labour from the other sector by paying a wage a little above the conventional level of subsistence or, more probably, a little above the average product of the worker on the land. Labour being unlimited, an expanding capitalist sector will recruit more and more labour without having to raise wages. Instead, the effect will be to raise the share of profits in the national income.

This process will continue until the capitalist sector has grown to a size such that it has drawn off all the "surplus" labour from the land (i. e. "capital formation has caught up with population"). After that, additional labour requirements now for the first time having to be met from a limited supply, real wage rates in the capitalist sector will tend to rise above the subsistence level. Other things being equal, this will reduce the rate of capital accumulation and eventually set a limit to the capitalist sector.

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(1) W. Arthur Lewis, op. cit., pp. 139-191; also "Unlimited Labour: Further Notes", The Manchester School, June, 1958. Professor Stephen Enke, himself no mean performer in this field (See e.g. his "Economic Development with Unlimited and Limited Supplies of Labour," in Oxford Economic Papers, June 1962) says of Lewis's 1954 contribution that it is "among the most important articles on economic development to have appeared during the past decade."

The best way to force up real wages in the capitalist sector is to raise the productivity of the subsistence sector (average product per head). And the best way to achieve this is by more economic land apportionment and mechanisation. This calls for capital for the subsistence sector, just as the reduction of the capitalist "surplus" consequent upon the raising of wages calls for further capital in the industrial sector, if the rate of manufacturing output is to be maintained.

Clearly, if the capitalist sector is dependent on the subsistence sector for food, the former's expansion will increase the demand for food and, unless the supply is correspondingly increased, food prices will rise in terms of manufactured products, thus reducing the rate of capital accumulation. This is one of the senses in which industrialisation is dependent upon agricultural reform.

Once again, then, if living standards are to rise all round, the two sectors must develop together. Whilst to say that, is to state the problem in basic terms it is, nevertheless, no more than a general prescription for economic advancement. Of the many detailed and specific aspects to any development programme none is perhaps more important or more topical than the strategies related to the so-called "key" groups in a given society.

#### "Key" Groups in Development Strategies.

Particular groups in society - technicians, trade unionists, administrators, the "elite", entrepreneurs and innovators - have been as prominent in discussions of the strategy of economic development as have general political and social factors' and recent development proposals have tended to assign some of these groups a primary place.

The early post-war discussions stressed the role of technicians (it was at this time that the term "technical assistance" was coined). Important as they are, it seems that the emphasis on the role of technicians has diminished with time, as countries have found it possible to train local material and to import technical competence as long as there are no political obstacles. Another group that has had some vogue as a big element in development - chiefly, perhaps, among political scientists - has been the elite of under-developed countries. The attitudes, background and influence of this group have at times been regarded as crucial. Economists, in turn, have tended to favour analyses emphasising the key importance of entrepreneurs - their number, motivation and position in society.

Lately there have been attempts to pin down in more specific terms the role of some of these groups, the reasons why they are crucial, and the causes for their behaviour.

Thus, Everett Hagen <sup>(1)</sup> highlights the innovators as did Schumpeter before him. Others, like McClelland, <sup>(2)</sup> have been accumulating considerable evidence on the relationship between child-rearing practices, the adult personality, the nature and strength of its motivations, and their significance for entrepreneurial behaviour and the rate of economic growth. But perhaps the only completed recent work in this field that makes specific recommendations on development strategy and criteria is Professor Hirschman's "The Strategy of Economic Development."

Hirschman argues that the ability to make development decisions is the scarce resource that conditions all other scarcities and difficulties. The appropriate strategy for development, therefore, is one that maximises "routine" decision-making and "induced" decision-making. Investment that compels other investment, projects that require decisions on other projects, would have the highest priority. Thus it is wrong to say that investment should not be concentrated in urban areas, which require more investment than rural areas for housing, water, sewerage, and the like. On the contrary, the very fact that investment in urban areas requires further investment in overhead facilities is one of the strongest arguments in its favour. Hirschman argues for what he calls "unbalanced growth" in the shape of a conscious policy of developing some lines faster or earlier than others in order to induce decisions that will in turn develop suppliers and users.

With these issues in mind let us now turn to the situation prevailing in South Africa.

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- (1) Everett E. Hagen, "The Allocation of Investment in Under-developed Countries ; Observations Based on the Experience of Burma", in Investment Criteria and Economic Growth (Cambridge, M. I. T. Center for International Studies, 1955).
- (2) David C. McClelland, "Some Social Consequences of Achievement Motivation", Nebraska Symposium on Motivation (Lincoln, University of Nebraska Press, 1955).

## The Case of South Africa.

South Africa is an almost classic example of a dual economy, in which a highly mechanised industrial sector and a backward subsistence sector exist side by side. The great stimulus to the industrial revolution in this country was the discovery of diamonds and gold in the 1870's and 1880's. Prior to that South Africa was predominantly an agricultural and pastoral community. The bulk of its indigenous African population clung to a primitive mode of life in which superstition was rife and poverty, as judged by modern Western standards, widespread.

Into this environment, with its abundant supplies of unskilled labour, but much less capital, there was suddenly implanted a highly capital-using industry requiring a relatively small quantity of labour per unit value of output, and a large proportion of which required to be skilled. The inevitable consequence was a large inflow of foreign capital and the importation of trained European labour at European wage rates. On the other hand, the wages of the unskilled labour employed were predominantly determined by local labour conditions. In this sense and to this extent, the dual economy which emerged may be said to have been created by the ordinary workings of a competitive price system.

It is perhaps of some interest that today, some 80 years later, mining (particularly gold-mining) is still expanding vigorously; and it is still probably the biggest development stimulus to the whole economy, even if it has had to give way, since the last war, to manufacturing industry (just as agriculture had had to yield to mining in the early thirties) as the principal "contributor" to the national income. Affording employment to more than 600,000 persons at the present time, the mining industry is by far our biggest earner of foreign exchange, the export of gold and diamonds alone running at more than R600 millions a year.

But as the process of industrialisation has grown apace, so have the complications which seem to go with economic dualism been aggravated, in South Africa's case, by the multi-racial character of her society and the restrictionism which has become so inseparable a characteristic of it.

The racial structure of the population is of particular importance to the prospects for economic growth for all in South Africa, not only because of the declared apartheid or "separate development" policy of government, but also but also because many of the most fundamental differences among persons are accentuated on racial lines. For instance,



while many exceptions may be found to prove the rule, it is generally true that, for many reasons (not all as simple as they might seem), the country has inherited a form of society in which most of the skilled, educated and well-paid workers are white, and where most of the less skilled, poorly educated and badly paid workers are black or coloured. This divergence of purchasing power on a racial basis leads in turn to marked differences in levels of nutrition, health, housing and general standards of living.

According to the latest Census there were, in 1960, 15.8 million people of all races in this country, of whom just over 3 million (fewer than 20 percent) were White, about 1.5 million (9 percent) Coloured, almost  $\frac{1}{2}$  million (all but 3 percent) Asiatic and close on 11 million (68 percent) African. In the last fifty years or so the population of all races has increased at the compounded rate of 2.1 per cent per annum; that of Whites by 1.8 percent; of Coloureds by 2.2 percent; of Asiatics by 2.7 percent; and of Africans by 2.1 percent. Despite the disparate rates of increase, the racial distribution of the population, taken percentage-wise, has remained remarkably constant since the date of Union - the main reason being that the group whose growth rate is furthest from the average (the Asiatic) is numerically the smallest.

South Africa covers an area of 472,000 square miles, so that the average density of settlement is only 33 persons per square mile. On the other hand, one-fifth of the total population (and two-fifths of the White population) reside in the five largest towns.

The urbanisation that has taken place over the years is a notable characteristic of the population and official statistics reveal quite clearly that the urbanisation rate of the African has outstripped that of any other race. Where, in 1911, there were approximately half a million Africans in the urban areas, the number had increased to some 3-1/3rd millions by 1960. Where fifty years ago but one in every 8 Africans resided in the metropolitan areas, today 3 in every 10 do so. During the latest inter-censal period (1951-1960) there was a bigger increase in the urban African population than in any similar period in the past. What is more, a sample survey just completed by the Council for Scientific and Industrial Research reveals that 70 percent of urban Africans are industrialised workers who have never reverted to rural work. In truth, the African in our cities has come to stay, and his numbers are increasing steadily from year to year.

In the absence of official statistics, the best estimate I can make of the geographical distribution of the African population is that some  $4\frac{1}{2}$  millions (just over 40 percent) are in the Native Reserve territories,  $3\text{-}1\frac{1}{3}$ rd millions (30 percent) in the urban areas (of whom some half a million are migrant workers domiciled in the Reserves), and the rest, a little over 3 millions (somewhat less than 30 percent), on European farms and in other rural areas.

Whilst it is true that the rate of development for the economy as a whole has been quite remarkable ever since the turn of the century, <sup>(1)</sup> it is equally true that, for one thing, the greater part of the population has had a very small share in this advancement and, for another, that, for the first time since official statistics have been available, real income per head actually fell after 1957. Even now, the gradual upturn that has subsequently set in has done little more than restore the figure to its 1957 level.

With the paucity of official statistics on the point, we have to look where we can for information of the differential earnings of the major groups in our society.

As far as the Reserves are concerned - where 30 per cent of the population lives on 13 percent of the country's land surface - the Tomlinson Commission <sup>(2)</sup> estimated the average value of agricultural output at R44 per family (of 6 persons) per year, and found that this was supplemented by an almost equal amount of R42 per year from other work done in the area. The same source estimated the normal grain requirements of an African family of six persons at 15 bags a year, but found that the total crop accruing to it was, on the average, not even half that figure. On this and other evidence it is quite clear that the Reserves constitute a subsistence economy (even sub-subsistence, for some.)

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(1) Since 1910 there has been a 6-fold increase in the value of gross national production (at constant prices) and a more than doubling of per capita real incomes. Today the average income per head of the whole population is roughly R290 per annum (or R267 if allowance is made for payments to non-South African factors). While this is much lower than in most Western countries, it represents a standard of living higher than in the rest of Africa.

(2) Summary of the Report of the Commission for the Socio-Economic Development of the Bantu Areas within the Union of South Africa, U.G. 61/1955, pp. 35 and 98.

Of the 3 million Africans on European farms and in other rural areas outside the Reserves, it is estimated that about one-half are actively engaged in farm work, some 720,000 as regular farm labourers, 670,000 as casual and seasonal workers and 125,000 as domestic servants. (1) This means that fully 40 percent of all economically active Africans are engaged in agricultural pursuits outside the Reserves; and this compares with the United States and some advanced European countries, where 10 percent and even fewer of the population is thus engaged.

Concern has recently been expressed by an official Commission of Enquiry at the decline of the rural European population and the increasing preponderance of Africans on European farms. (2) From sample surveys conducted in the southern Free State and northern Natal, for instance, about 25 per cent and 83 percent respectively of the farms were found to be occupied exclusively by Africans (among the reasons given for this state of affairs are too small farm units; the large-scale acquisition of land by a relatively few wealthy individuals - about 3 percent of the European farmers are said to own at least one-third of South Africa's farm land; exorbitant land prices; and the comparatively high level of working capital required).

According to recent estimates of the Division of Economics and Markets of the Department of Agriculture, incomes of African farm workers - both in cash and in kind - range from R82 per annum in the north-western Transvaal bushveld to R144 per annum in the Western Transvaal. Cash wages of regular African farm labourers normally comprise from 40 to 50 percent of aggregate earnings and are estimated, on the average, at a little over R60 per worker per annum. (3) As regards family income, the official estimate for the central Free State was an average of R352 per annum. In the Eastern Cape, reputedly a relatively low-wage farming area, the annual income of a farm labourer's family was found in 1958 to average about R214 per year, (4) in cash and kind.

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(1) Data for 1959, supplied by the Bureau of Census and Statistics, Pretoria.

(2) Report of the Commission of Enquiry into European Occupancy of the Rural Areas, (Government Printer, Pretoria, 1959).

(3) Quoted by S. J. du Toit: "African Farm Labour": Race Relations Journal, Vol. XXVI, No. 2. April-June, 1959. Pages 77-78.

(4) Margaret Roberts, Labour in the Farm Economy (South African Institute of Race Relations, Johannesburg, 1959) p. 62.



For most of those also who have chosen to move to the urban areas, living standards are far from enviable. Recent income and family budget studies of Africans in the Durban area disclose that 2 out of every 5 families earn less than R28 a month and 7 out of every 10 less than R37 a month. <sup>(1)</sup> The average family (of five persons) has a regular wage income of R34 a month, a figure which, for the vast majority of them, falls woefully short of their minimum recorded expenditure requirements. <sup>(2)</sup>

The same sort of situation is, by and large, revealed by income surveys conducted elsewhere (notably those of the Institute of Race Relations for the Johannesburg area, Rhodes University, the Pretoria Bureau of Market Research, and one or two municipal investigations)-even if, for reasons which are not immediately apparent, the level of earnings of the Pretoria study is comparatively high. <sup>(3)</sup>

A useful rough comparison with European earnings is provided by the official survey of (White) family income and expenditures made in 1955 for the purpose of revising the retail price index, and embracing the ten principal urban areas of the country. <sup>(4)</sup> According to this, the average income in that year from all sources per European family was R2770, and from salaries and wages R2646.

On the basis of these and other data (such as Wage Board determinations and Industrial Census reports), it might reasonably be concluded that the wages of Whites are from five to six times greater than for non-Whites at this time.

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- (1) Department of Economics of the University of Natal. (As yet unpublished report.)
- (2) Ibid.
- (3) For instance, though unskilled wage rates are very similar in Durban and Pretoria, average family incomes apparently differ by as much as R151 per annum (R404 per annum in the Durban enquiry and R555 in the Pretoria enquiry).
- (4) Bureau of Census and Statistics: Survey of Family Expenditure - November, 1955. Report No. 3 : Income: Page 13. Government Printer, Pretoria, December, 1957.

Thus, after three generations of active industrialisation in this country the inequality of incomes among Whites and non-Whites is apparently as great as ever it was; and the persistently low earning capacity of the greater majority of the population is at once the most intractable problem facing those who would wish to see the raising of living standards on a country-wide basis.

Part of the explanation for this state of affairs lies in the big differences in the skills and the occupations of the racial groups. Appendix 11, based on the 1951 population census indicates these differences.

Yet these figures are themselves symptoms rather than causes. The causes lie deeper and inhere in our customs and conventions, ideologies, race attitudes, and political, social and economic institutions. The essentially economic character of the dualism that emerged with the industrial revolution in South Africa has been changed fundamentally, and the change itself bolstered and entrenched by a plethora of legislative and other restrictions. These measures, operating mainly against the freedom of the individual, and becoming more numerous each year, must be viewed as a drastic departure from laissez-faire principles and a serious encumbrance upon the mobility of the factors of production, notably labour.

Prior to 1956 very few statutory enactments discriminated among workers on racial lines, although a de facto colour bar had arisen in most fields of employment as a result of social custom and the strength of the European labour unions. (1) It is true that an insidious type of discrimination was discernible in the fact that Africans were excluded, by definition, from the provisions of certain Acts dealing with labour matters, but it was not until the passing of the Industrial Conciliation Act of 1956 that "job reservation" was introduced as an official policy.

The principle itself seems to rest on a fallacious view of the economic implications of increasing employment of non-Whites (notably Africans) in the industrial economy. Far from limiting the employment opportunities of Whites, the availability of suitable non-White labour has in the past been a pre-condition for the overall expansion of industrial employment and output. (2)

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(1) The earliest Act embodying a legal colour bar in South Africa was the Mines and Works Act of 1911, as amended by Act.No.26 of 1926.

(2) See O.P.F.Horwood, et al, "The Employment Provided by Manufacturing Industry", in South African Industry and Trade (Union Jubilee Issue), March, 1960, p. 95, where "four main ways" in which this has happened are indicated.

The occupational and geographical mobility of labour has been further curtailed by restrictions on the physical movement of persons and workers, mainly through the operations of the Group Areas Act, the various "pass laws" and, specifically, by "influx control" of Africans and, for Indians, the very severe restrictions imposed by statute on their inter-provincial movement.

Influx control has its ostensible justification as a means of controlling the movement of Africans from the farms and the Reserves into the urban areas and thus avoiding some of the evils of over-crowding, slum formation, unemployment, and human misery which might otherwise ensue. Today, however, except for the small, but growing proportion of Africans who were born in an urban area and those who have worked there for a considerable time, the temporary residence of Africans in a town is a privilege and not a right, and the refusal to accept what employment is offered to them by the labour bureaux, or an unsatisfactory history of unstable employment, may result in their being endorsed out of the area. This would permanently debar an African from re-entering the area; nor might he be able to obtain permission to seek work anywhere else. This power to withhold from a worker the right to sell his labour in the best market, and which in some cases denies him the right to sell it at all, must be unique in a Democratic country except in times of hostility.

It is well-known that Africans are debarred from the provisions of the Industrial Conciliation Act (Industrial conciliation for Africans is covered by the Native Labour (Settlement of Disputes) Act of 1953) and that any unions they may form are not officially recognised and usually operate under extreme difficulty. Officially, then, Africans have no direct say as an organised group in the determination of their conditions of employment.

If the foregoing analysis has any merit it follows that the subsistence economy in South Africa is not, as is often averred, confined to the Native Reserve territories, but that it extends appreciably into the modern, industrial sector as well. And any proposals for the raising of living standards of all sections of the population must take cognisance of that fact.

Perhaps enough has been said to indicate (even if in outline only) the blueprint of a strategy of economic development for this country.

In a word, the first essential is a drastic reduction of the restrictionism which so severely "circumscribes ... our growing virtues"; and the second is the uplift of the subsistence economy on a sound, long-term footing. The raising of the average product of those in the Reserves by improved farming methods and mechanisation will not only alleviate the poverty of their own inhabitants, but the beneficial effects will spread to those outside the Reserves, on European farms and in the urban areas. For better living conditions in the Reserves will force employers everywhere to pay higher wages in order to induce the (now better off) Africans to leave the land.

But this, in turn, requires the maintenance of a rate of growth in the industrial economy adequate to absorb those who, in time, will be displaced from the land by the programme of agricultural improvement. This continued growth of industry is a considerable proviso, with the virtual cessation, on balance, of foreign investment in South Africa, capital is extremely scarce.<sup>(1)</sup> For this and other reasons, it seems inevitable that more land will have to be made available to Africans. Thus the situation arises that to extinguish the main part of the subsistence economy, as represented by the Reserves, it will be necessary to extend their area.

In addition, as the Tomlinson Commission (among others) pointed out, there is a great need for reform of the land tenure system. The surest way, it seems to me, to give a man a real incentive to improve his position is to give him a stake in the ownership of property, above all of land.<sup>(2)</sup>

It requires but to say that the economic development proposals envisaged here differ in substantial respects from those contained in the Government's recently-announced five-year R 114 million plan

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(1) For instance, the net investment rate (the ratio of net capital formation to net national product) which for many years after the last war was above 20 percent - and at times as high as 23 and 24 percent - is down to no more than 13 percent today.

(2) This is one respect in which I must disagree with Professor Hobart Houghton's admirable discussion of the economic development of the Reserves. (D. Hobart Houghton "Economic Development of the Reserves"; Race Relations Journal, Vol. XXIX Jan. - March, 1962, Page 14.)

for the Bantustans. (1) Much bigger sums will have to be spent on agricultural reform in the Reserves, since more food is the greatest and most pressing need. Moreover, if the whole programme is to be on the scale of the "big push" that seems so necessary to its success, the "border areas" industrialisation scheme will surely have to make way for one which allows industrialists to choose their own sites, whether within, on the perimeter of, or outside the Reserves.

The words with which Paul Samuelson concluded a chapter on the economic development of the fanciful country alertia seem peculiarly appropriate to the domestic scene: "All in all, to the visiting anthropologist and economist South Africa presents a fascinating spectacle. No-one knows quite where she is going. But this much is clear - she is on her way."

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(1) As it stands, fully two-thirds of the R114 million aggregate is earmarked for Bantu housing and villages (most of them apparently designed to supply labour to the hoped-for White "border" industries); leaving scarcely one-third of the total for the productive development of the Reserves themselves.

APPENDIX 1.

		<u>Number</u>	<u>Index</u>
Population of South Africa	1910	5, 878, 000	100
	1960	15, 841, 000	269
Urban population	1921	1, 934, 000	100
	1960	6, 970, 000	360
Gross National Income (R million at 1958 prices)	1911/12	R 736	100
	1960/61	4, 544	617
Per capita income (at 1958 prices)	1911/12	R 122	100
	1960/61	R 284	233
Employment on farms (excluding African farms)	1918	488, 062	100
	1958	961, 769	197
Employment on mines	1910	291, 377	100
	1961	610, 000	209
Employment on South African Railways	1910	52, 595	100
	1961	214, 500	408
Employment in manufacturing and construction industries	1915/16	97, 020	100
	1961	794, 800	819
Net output of manufacturing industries (R million at 1958 prices)	1915/16	R 70	100
	1959/60	R 1, 014	1, 449
Electricity generated (KWH millions)	1916/17	942	100
	1961	24, 556	2, 607
Commercial bank deposits (R million at 1958 prices)	1913	R 190	100
	1961	R1, 133	596
Total government revenue (R million at 1958 prices)	1911/12	R 78	100
	1960/61	R 710	910
Total imports (R million at 1958 prices)	1910	R 190	100
	1961	R 985	518
Total exports (R million at 1958 prices)	1910	R 290 (61% gold)	100
	1961	R1, 450 (38% gold)	500

APPENDIX II.

Occupational Distribution of Economically Active  
Population of South Africa, 1951.

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	White	Coloured	Asiatic	Bantu
	%	%	%	%
Professional and Technical	9.7	2.0	2.8	0.9
Administrative and Managerial	8.0	0.4	10.7	0.2
Clerical Workers	20.2	1.3	3.2	0.4
Sales Workers	6.5	1.6	12.4	0.4
Agriculture and fishing	14.6	29.1	13.7	46.2
Mining	3.3	0.8	0.4	14.1
Transport operating	3.1	2.9	4.1	1.0
Industrial workers	27.3	37.8	30.1	19.3
Service workers	4.7	17.8	10.8	14.6
Other and undefined workers	2.6	6.3	11.8	2.9
	100.0	100.0	100.0	100.0
Economically Active Population	983,568	404,524	94,481	3,110,014
Total Population	2,641,689	1,103,016	366,664	8,560,083
Economically Active as % of Total	37	36	26	36





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