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# A Critical Assessment of the Economic Strategy to Develop the Homelands of South Africa

P.A. BLACK

Degree of M. Litt. University of Glasgow 1976

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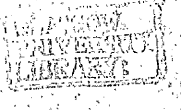

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## GENERAL INTRODUCTION

"Absolutely, there are hundreds of millions of people who are illiterate and inadequately sheltered even from the rain, virtually without furniture or shoes, perpetually undernourished and provided by the twentieth century with little except the growing awareness of their misfortune."

Dudley Seers

Separate ethnic development has been practised in South Africa for the past 20 or so years. During this time the Government has been frequently obliged to modify the general objective and specific measures of its "Bantustan" or homeland development policy. The reason for this was, and still is, the fact that the political ideology of apartheid is, as most infant political ideas, either ill-suited for, or insufficiently adapted to the economic reality of the time; the events of the past decade indicate that an increasing proportion of the public is becoming aware of the immense social and economic costs and personal sacrifice involved in the attempt to transform a state of mere racial separateness into one of separate racial development.

There have been many attempts to describe and analyse this latter process of transformation, particularly the economic aspect thereof. But most of these attempts have failed, in one way or another, to provide an adequate explanation for the

socio-economic underdevelopment of the homelands. This failure may be divided into three general categories, namely a superficiality of analysis, a limitedness in scope and the lack of an appropriate framework for analysis. Some studies on the homelands are superficial in the sense that their conclusions are not always supported by sufficient evidence.[1] Others are limited in their scope so that, consequently, they often lack the necessary perspective[2]; this is not to say that these studies have no use, for there is clearly a need for sufficiently specialised research into some of the major determinants of homeland development. But it should be realised that the value of such research, as well as its possible effect on existing policies, would be limited if it were not placed within the wider context of the development of the homelands.

A more serious shortcoming of the current literature is the almost total lack of an appropriate analytical framework.[3] The

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1 See Rogers, B.: The Bantu Homelands, International Defence and Aid Fund, Christian Action Publications, 1972; Lipton, M.: "The South African Census and the Bantustan Policy," World Today, Vol 28, No. 6, June 1972, pp. 257-271; and Maasdorp, G.G.: Economic Development for the Homelands, South African Institute of Race Relations, 1974.

2 See for example Bell, T.: Industrial Decentralisation in South Africa, Oxford University Press, 1973; and Reynders, H.J.J.: "Die Werkverskaffingspotensiaal in die Tuislande met besondere verwysing na Nywerheidsdesentralisasie," Yearbook of South African Bureau of Race Relations, No. 6, 1970, pp. 70-80.

3 See Lombard, J.A. and Van der Merwe, P.J.: "Central Problems of the Economic Development of the Bantu Homelands," Finance and Trade Review, Vol X, No. 1, June 1972, pp. 1-27; Stadler, J.J.:

reason for this may well lie in the fact that South African researchers are, rightly or wrongly, too obsessed with the "neutral" or value-free role of the economist in society. But there seems to be little point in trying to quantify the employment problem, or in evaluating agriculture or industrial development in the homelands, without making some reference to an analytical norm which enables one to distinguish between a "good" policy and a "bad" one.

In the present study these problems will be largely avoided. Our approach will be to firstly analyse the problem of underdevelopment, then to identify the causes of the problem and, thereafter, to assess the economic strategy and policies which have been employed to solve the development problem in the homelands. Before this is done, however, we shall give a general chronological account of past developments in the policy of homeland development. This is done in Section I below where an attempt is made to explain <u>how</u> and <u>why</u> the policy has unfolded into its present form, thereby constructing a general framework within which the subsequent analysis can be undertaken.

Section II is devoted to an analysis of the employment problem in the homelands. In the introduction to this section the employment problem is defined as one of the many dimensions

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"Demografiese en Ekonomiese Kenmerke van die Suid-Afrikaanse Bantoetuislande," <u>Agrekon</u>, Vol 9, No. 1, January 1970, pp. 20-28; Smit, P.: Die Ontwikkeling van die Bantoetuislande - Probleme en Vooruitsigte, <u>Africa Institute</u>, No. 21, July 1969; Reynders, H.J.J., <u>op.cit.</u>; and others. (An exception is Maasdorp, G.G., <u>op.cit.</u>)

of the general problem of underdevelopment. It is recognised that the provision of adequate employment opportunities will not by itself solve the development problem in the homelands; there is also a need for better health and education and, more generally, for an improvement in the quality of life. And it is in this context that the analysis of Chapters 3 and 4 of Section II should be seen. In Chapter 3 we estimate the growth of the homeland labour force. This is followed in Chapter 4 by an inquiry into the adequacy of existing employment opportunities in the agricultural sector of the homelands.

In the final section an attempt is made to evaluate the development and regional dimensions of economic strategy in the homelands. Chapter 5 analyses the employment potential of different development programmes in the homelands. The purpose of this analysis, which is more fully explained in the introduction to Section III, is to determine whether resources are being allocated in accordance with the corresponding endowment of resources in the homelands. This is done in respect of (1) the decentralisation of industry to the growth points of the homelands, (2) the promotion of manufacturing and service industries by the Development Corporations and (3) the development of agriculture.

The regional dimension of economic strategy refers to the allocation or distribution of resources among the various homelands; and in Chapter 6 an attempt is made to determine the extend to which resources are being allocated in accordance with the relative needs of the homelands. In the same chapter we also intend to determine the growth potential of the homeland economies on the basis of the existing spatial allocation of resources. Finally, in the general conclusion at the end, we shall summarize the major findings of the study, and make some proposals for a possible improvement in the overall performance of the policy.

## SECTION I. A GENERAL REVIEW AND EVALUATION OF PAST DEVELOPMENTS IN THE POLICY OF HOMELAND DEVELOPMENT

### Chapter 1. The Tomlinson Commission Report and the Decade of the Sixties

The Tomlinson Commission Report[1], which is the major subject of this chapter, forms the cornerstone of the policy of homeland development; and as such, it signifies the first attempt by Whites to bring about a more equitable distribution of resources between the various population groups of South Africa. In sections (i) and (ii) below we shall discuss and evaluate the general objective and specific recommendations of the report. The initial reaction to the report, which has remained a somewhat controversial issue to this very day, forms the subject of section (iii). Section (iv) deals with institutional development, and section (v) with economic development in the homelands during the decade of the sixties. In the final section a number of problem areas are outlined with the purpose of indicating the reasons for some of the more recent developments in the homeland development policy.

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1 Union of South Africa: 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, Government Printer, Pretoria.

(i) The Tomlinson Commission Report: General Objective and Specific Proposals

The lengthy report of the Tomlinson Commission was completed in 1955 and accepted by the Government in 1956. The title of the report closely resembled its general terms of reference. These were "to conduct an exhaustive inquiry into and to report on a comprehensive scheme for the rehabilitation of the Native Areas with a view to developing within them a social structure in keeping with the culture of the Native and based on effective socio-economic planning."[2] The Commission's task, in other words, was simply to draw up and submit a plan to develop the Black homelands of the Republic, without unduly disrupting the inhabitants' traditional system of social behaviour. The Government did not formally impose any social or political constraint, other than the preservation of the Blacks' culture, on the Commission's consideration of various spatial and other strategies of development.

In this respect the Commission placed a somewhat wide interpretation upon its terms of reference. It considered two alternative development strategies, one of which was the extension of the then existing industrial centres, and the other the decentralisation of industry to the homelands of the Republic. Its subsequent acceptance of the decentralisation strategy, and rejection of the other, was partly based on the presumed social and economic problems associated with continued expansion in the metropolitan centres.[3] But there was another,

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2 Ibid., p. xviii.

3 Ibid., pp. 108-109.

possibly more important, reason for the Commission's dismissal of the possibility to further develop the existing industrial centres. Such a strategy, it was argued, would cause "a complete integration of the various population groups and the ultimate liquidation of the Europeans' right of self-determination, their identity and their survival as a separate national entity."[4] The Commission was clear on this point: "There can be no middle course in the future. Indeed, the present so-called middle way leads, as already pointed out, inescapably towards integration. The only alternatives are, therefore, either the path of ultimate complete integration (i.e. of fusion with the Europeans), or that of ultimate complete separation between Europeans and Bantu."[5]

The general objective of the Commission's recommendations was to allow as many Blacks as possible to lead a full and productive life in each of the respective homelands. "The ideal should be that the non-Bantu areas house a swiftly shrinking proportion of the total Bantu population."[6] This was to be achieved by a sufficiently diversified and well-balanced economic development programme designed to provide employment to both the then existing population of the homelands, as well as a large, though unspecified proportion of Blacks permanently working and living in the non-homeland areas of the Republic. The Commission's detailed proposals for the development

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4 Ibid., p. 106.

5 Ibid.

6 Ibid., p. 184.

of agriculture in the homelands,[7] formed the basis of its estimate of the surplus agricultural population in the homelands, a category for which, in addition to the afore-mentioned proportion of non-homeland Blacks, non-agricultural employment had to be made available in selected growth points situated within and close by the various homelands.[8]

The year 1981 was set as a preliminary target by which time the homelands were to provide a livelihood to about 9 million Blacks, or 64 per cent of the total Black population. This percentage was to be raised to 70 per cent by the turn of the century. Of the number of 9 million Blacks approximately 7 million were to make a living from income earned within the homelands, while the remaining 2 million were to live on income derived from industrial development in the border areas. Fulfilment of these targets was estimated to require the creation of about 50,000 jobs each year, 20,000 in secondary and 30,000 in service industries.

The Commission put forward proposals for the development of mining, secondary industry and services in the homelands. The bulk of the service industries was to be provided by the Government, while investment in manufacturing and construction was to be the responsibility of both private enterprises as well

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7 These will be discussed in Chapters 4 and 5.

8 The selection of growth points were made on the basis of such factors as the availability of input factors, population density and the existing scale of economic activity. Growth points close by or next to the homelands, commonly referred to as border areas, are situated in the so-called White areas at normal travelling distances from Black townships developed just inside the borders of the respective homelands.

as a Government controlled development corporation. The Commission argued a particularly strong case for investment in the homelands by White industrialists. This was to occur on a temporary basis according to which all managerial, supervisory and skilled tasks were gradually transferred to the Blacks. A case was also made for the establishment of relatively small labour-intensive industries capable of meeting domestic and, in some cases, non-homeland demand. Such industries included textile, clothing, footwear, furniture, light metal work, cement, food canning and decortication industries. From the point of view of the availability of factor inputs, the Commission considered it best not to encourage the development of capital-intensive industries during the initial stages of development.

Finally, total costs of operations in the first 10 years of the plan were estimated at R209 million. The proposed financial requirements of the plan are summarized in Table 1.1.

TABLE 1.1 The Estimated Financial Requirements of the Tomlinson Commission's Proposed Development Plan

| Item | R millions |
|---|---|
| Agricultural and Forestry Development | 73.8 |
| Mining | 2.0 |
| Secondary and Tertiary Development | 60.0 |
| Township Development | 24.0 |
| Provision of Basic Facilities | 26.0 |
| Health Services | 10.0 |
| Education | 6.0 |
| Welfare Services | 7.2 |
| TOTAL | 209.0 |

Source: Tomlinson Commission Report, op.cit., p. 206.

From the table it can be seen that agricultural and forestry development (35 per cent) and secondary and tertiary development (29 per cent) constituted by far the largest proportions of the estimated financial requirements of the development programme. Other less important items of expenditure included township development (11.5 per cent) and the provision of basic facilities such as roads and water (12 per cent). It is therefore clear that the Commission placed much more emphasis on agricultural and industrial development than on the development of the social and physical infrastructure of the homelands.

(ii) Merits and Demerits of the Report

Any assessment of the Report's contribution to social and economic change in South Africa must take into account the fact that the Commission's original recommendation to segregate and develop the Black homelands, was based primarily upon its own notion of a proper ethnic distribution and system of politics in South Africa. The rejection of the centralisation theme, for example, was determined by what, in the Commission's view, constituted a stable system of race and political relationships between the Blacks and Whites of the country as a whole. The socio-economic development of the homelands, on the other hand, entered the discussion on the relative merits of the centralisation and decentralisation strategies only to a very limited extent.[9]

It follows from this that the proposed economic development programme, having been subjected to a given spatial allocation of

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9 See Tomlinson Commission Report, op.cit., p. 109, par. 9.

resources, does not necessarily describe an optimum solution to the problem of the economic underdevelopment of the homelands. Instead of ruling out "middle course" solutions, the Commission could have explored the possible effect on economic development in the homelands of increased migration from the homelands to the metropolitan and other non-homeland growth centres of the Republic. It is not unlikely that increased out-migration would have facilitated the development of agriculture in the homelands through its affect on the land-labour and capital-labour ratio's of the homeland economies. Such migration policies could have been supplemented by a policy of decentralisation whereby private industrialists decentralized to growth points selected, not in terms of locational proximity to the homelands, but purely on the basis of their relative growth potential.

On the other hand, the Commission must be credited for clearly specifying the economic costs and general implications of its proposed development programme. It frequently emphasised the immense sacrifices expected from White South Africans to make possible the execution of the development plan. The report also reveals a realistic appreciation of the economic problem in the homelands. As part of the proposed agricultural development programme, for example, agricultural land was to be divided into farm or family holdings in such a way as to ensure that each full-time farming family would be able to meet its own immediate food requirements with the use of the then existing methods of production. Any subsequent improvement in agricultural practices and methods, which the Commission expected to materialise only in the very long run, would have enabled the farming population to supply the non-farming population with agricultural produce.

Some specific points of criticism ought finally to be made. Firstly, the Commission failed to examine the income generating potential of its employment biassed policy of development. Policies which attempt to maximise the growth of employment may generate lower levels of income than policies promoting a more balanced allocation of production factors[10]; this may be due to the fact that the relative shortage of capital-intensive industries sets a limit on the growth of income in the long run. On the other hand, a high level of income may not be very meaningful if it is not equitably distributed. The development problem is in many ways also a problem of the distribution of income. The solution to this problem is partly dependent upon the extent to which the supply of unskilled labour can be utilised[11]; and in this respect the Commission did well to recommend the promotion of such labour-intensive industries as textiles, footwear and furniture.

Secondly, the proposed rate of development has been criticised because of the fact that it was partly based on rates of growth and urbanisation experienced in Canada and other advanced countries[12]. The Commission's proposed rate of migration between the non-homeland areas and the homelands, for example, was directly based on rates of migration in Canada. This seems to be unjustified in view of the obvious differences in skill between Black migrants and the immigrants of such an economically advanced country as Canada.

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10 See International Labour Office: Employment and Economic Growth, Studies and Reports, New Series, No. 67, 1964, pp. 52-54.

11 This argument is taken up again in Section III below.

12 Le Roux, P.J. du P.: "Die Sekondêre en Tersiêre Nywerheidsontwikkeling van die Bantoe Tuislande", Unpublished B.Comm. Honours dissertation, University of Stellenbosch, 1969, p. 12.

Similarly, the Commission's estimates of the employment distribution between secondary and tertiary industries seemed to have been based on the experiences of advanced economies.[13] There is certainly no evidence to suggest that the number of labourers employed in services, as a percentage of the total labour force, is the same for countries experiencing different levels of economic development. In this respect Le Roux considers the Commission's estimated number of 30,000 service jobs to be too high in relation to the number of 20,000 jobs in secondary industries.[14]

Thirdly, the proposed sum of R209 million for the first ten years, or R20,9 million per year, seems at first glance too little with which to finance the proposed development programme. While there are no generally set standards of the average cost of employment, the necessity to erect costly services in the early stages of development, seems to suggest that the average cost of employment rises more rapidly than the rate of employment growth at relatively low levels of economic development. While it would be unfair to compare the Commission's estimates of total and average costs with relatively recent estimates of the average cost of employment, some interesting comparisons emerge from others' earlier estimates. Frijohn[15] showed that the employment of one man in secondary and tertiary industries requires, on the average, a total investment of approximately R2,000. Similarly, the proposed provision of 50,000 jobs has been estimated to require an average investment of

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13 Ibid.

14 Ibid.

15 Frijohn, H.: "Border Industries", Journal of Race Relations, 1962, p. 24.

R64 million per year.[16] This is equal to R1,300 per job compared to the Commission's corresponding estimate of R400.

Finally, while one is left in no doubt about the proposed measures to prevent White industrialists from settling in the homelands on a permanent rather than temporary basis, the Commission failed to specify possible ways of attracting industry to the homelands. This is indeed a curious omission in view of the apparent importance attached to the role of private enterprise in the development of the homelands.

(iii) The Initial Reaction to the Commission's Report

The Commission's report was acknowledged and partly accepted by the Government in a White Paper published in 1956.[17] While the Government supported the Commission's general standpoint on separate ethnic development, it disagreed with the report's general "big push" approach to the development of the homelands. It was argued that industrial development in the homelands, on the scale recommended by the Commission, would pose a threat to existing industries in the non-homeland areas of the Republic. The Government also disagreed with and forthwith rejected the recommendation that White industrialists should actively participate in the development of the homelands. The view was taken that Blacks were unable to compete with Whites on an equal footing, so that the danger arose that the Blacks would be unduly subordinated to White dictation if exposed to conditions of unlimited competition.

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16 Stacy, R.D.: "Implications of Territorial Segregation in South Africa," South African Journal of Economics, Vol. 34, No. 1, March, 1966, p. 62.

17 Union of South Africa, White Paper, W.P.-F 1956, Government Printer, Pretoria.

In the event the Government, having chosen not to commit itself to any predetermined target of development, decreed that a provisional sum of R73 million should be set aside for the development of the homelands. This was but a third of the amount proposed by the Tomlinson Commission which was, as argued before, already insufficient for the purposes of creating productive employment opportunities in the homelands. The amount of R73 million included sums of R43 million, or 59 per cent, voted for agricultural and forestry development and R10 million, or 14 per cent, voted for the provision of basic infrastructional services. For some mysterious reason no provision was made for industrial development in the homelands. The Minister concerned declared: "I think it would be catastrophic to establish subsidised White Industries in Native Areas in competition with the existing White Industries. Therefore that £30 million falls away"[18] - "that £30 million", however, being the amount proposed by the Commission for the development of secondary and tertiary industries in the homelands, was certainly not only intended for the subsidisation by the Government of White industries, but also for the establishment of state and Black industries within the homelands. Furthermore, investment forfeited by the Government's decision not to allow White Industrialists to invest in the homelands was, in all probability, not very significant. ".... the issue has for a considerable time been rather confused by the political policy of preventing White capital from entering these areas. As far as we can judge, this was a complete red herring, for the reason that

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18 Nieuwenhuysen, J.P.: "Economic Policies in the Reserves since the Tomlinson Report," South African Journal of Economics, March, 1964, p. 9.

during the time this policy was adhered to, very few investment opportunities really existed."[19]

Verwoerd's arrival on the political scene marked the beginning of a more determined, though not much different, approach to the homeland development policy. He firmly underlined the traditional Government approach by emphasising the human element involved in the process of economic development. Although the Tomlinson Commission occasionally appreciated the human constraints to development, Verwoerd attached much more importance to the need to preserve the emotional stability and social way of life of the Blacks. "The purpose of economic developments is not to create welfare but to create the ability to create welfare."[20] The Verwoerdian era is perhaps best described by Simpson when he writes: "Indeed during his lifetime the Verwoerdian policy of separate development more and more took on the trappings of an evolutionary apartheid rather than of a revolutionary vision of development."[21]

The increased emphasis placed on the development of the border areas was a direct corollary to the Verwoerdian philosophy. Instead of investment within the homelands, White industrialists

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19 Lombard, J.A., Stadler, J.J. and Van der Merwe, P.J.: The Concept of Economic Cooperation in Southern Africa, Econburo (Pty) Limited, Pretoria, 1968, p. 43.

20 Translated quotation from Smit, P.: "Tendense van Ontwikkeling in die Bantoegebiede van Suid-Afrika", Acta Geographica, 1967, p. 50.

21 Simpson, F.: "Separate Development and Dr Verwoerd," New Nation, 7th July, 1969, p. 7.

were to be encouraged to locate in border areas such as Hammersdale (near Kwazulu) and Rosslyn (Bophuthatswana). In 1960 the Permanent Committee for the Location of Industry was set up to decide on suitable growth points and an appropriate system of incentives. The provision of services was to be the responsibility of the local and central Governments, while the long established State owned Industrial Development Corporation was to assist White industrialists wishing to set up concerns in the border areas.

In these circumstances it is hardly surprising to find that, apart from the establishment of the Bantu Investment Corporation worth R1 million, no funds were allocated to industrial development within the homelands during Verwoerd's term of office. The Government's continued repudiation of the "big push" strategy can be seen from the amounts of expenditure voted for the development of the homelands and border areas as a whole. In the year 1960/61, for instance, R17.5 million was set aside for homeland development.[22] In 1961 the Government announced its first five-year plan in which a total amount of R114 million, or R23 million per year, was voted for the development of the homelands.[23] Allowing for changes in the general price level, these sums probably did not represent substantial increases over the previously proposed amounts of about

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22 Nieuwenhuysen, J.P., op.cit., pp. 10-11.

23 The latter amount constituted only 2.5 per cent of the Government's total budget in 1961. (See Republic of South Africa: White Paper in connection with the Budget Statement, 1964-65, W.P.B. - 64, Government Printer, p. 36)

R7 million per year. The total sum of R114 million applied to township development and the provision of basic services (to the extent of 72 per cent) and agricultural and forestry development (28 per cent).[24] And it follows that the first five-year plan, in contrast with previous budgets, placed far more emphasis on infrastructural development than on agricultural and forestry development in the homelands.

Since the five-year plan was, however, never tabled in parliament, and many individual items of expenditure not realised in practice, Verwoerd's budgets would seem to have portrayed little else than a rather hesitant willingness to extract more money from the taxpayer for the purposes of homeland development. On the other hand, Verwoerd's sincerity and respect for the Black culture, judging by his well publicised public addresses, seem beyond question and probably worthy of much praise. His failure to accede to requests by Blacks to establish partnerships with White industrialists in the homelands, however, signifies an inability to realise the sheer economic (and political) necessity of developing the homelands at the fastest possible rate. Given the appallingly low standards of living in the homelands,[25] it is indeed odd that doubt should have existed over the correct trade-off between increased economic development on the one hand, and the preservation of traditional though hungry values on the other.

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24 Fouche, P.: Die Finansiering van Bantoeontwikkeling en Administrasie, unpublished B. Comm. Honours dissertation, University of Stellenbosch, 1969, p. 5.

25 See p 29 below.

(iv) Institutional Developments in the Sixties

The decade of the sixties can be described as South Africa's decade of "great debates." More people became more conscious of the immense importance the policy of homeland development held for the country's future; increased public involvement expressed itself in the forms of bustling politicising, heated academic debate, extensive news coverage, the relatively ambitious second five-year plan, and the decision to allow White enterprises to invest in the homelands.

In May, 1967 the Government announced its second five-year plan in which no less than R490 million was voted for the development of the homelands and border areas.[26] This was equal to about R100 million per year or 5 per cent of the Government's total budget in 1967. The individual items of planned expenditure are summarized in Table 1.2.

TABLE 1.2 The Distribution of Public Expenditure voted for in the Second Five Year Plan

| Item | R millions |
|---|---|
| Agricultural and Forestry Development ..... | 31.9 |
| Secondary and Tertiary Development ..... | 39.5 |
| Township Development and the Provision of Basic Services ..... | 134.8 |
| Education ..... | 163.6 |
| Welfare Services ..... | 88.9 |
| Other ..... | 32.1 |
| TOTAL ..... | 490.8 |

Source: Fouche, P., op.cit., pp. 6-7.

26 Die Burger: "Bantoe Tuistes: R500 milj. oor vyf jaar," 19th May, 1967, p. 1.

The table shows that the second five-year plan was similar to the first one insofar as the proposed expenditure on township and basic service development (at 27.5 per cent) constituted a relatively large proportion of the total budget. Increased pressure exerted on the Government by the homeland authorities probably accounted for the fact that education (33.3 per cent) formed the largest proportion of total expenditure voted for in the second plan.[27] More important, however, from the point of view of accelerated economic development in the short run, was the fact that about R40 million, or 8 per cent of the total budget, was voted for industrial development; the first such step taken in the more than decade old policy of homeland development. There was, however, no guarantee that the total amount of R491 million would be spent, as the South African system of budgeting requires that all expenditures be approved by Government each year. In fact, total expenditure on homeland development in each of the first three years of the plan amounted to just over half of the average annual amount voted for in the plan.[28]

By March, 1968 the Bantu Investment Corporation, in spite of modest beginnings, managed to increase its capital stock by tenfold. Since the activities of the Corporation were, however, mostly limited to the subsidisation of service industries, rather than secondary industries, the Minister of Bantu Administration and Development declared in 1965 the

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27 See Lombard, J.A. and Van der Merwe, P.J.: "Central Problems of the Economic Development of Bantu Homelands," Finance and Trade Review, Vol. X, No. 1, June 1972, p. 16.

28 See South African Institute of Race Relations: A Survey of Race Relations in South Africa, Natal Witness (Pty) Ltd., 1968, p. 149 and 1969, p. 132.

Government's intention to set up development corporations for each homeland with a view to promoting industrial development within the homelands.[29] In the same year the Xhosa Development Corporation was established with an initial capital stock of R1 million. In 1969 the Bantu Mining Corporation was set up to undertake systematic geological and physiographic surveys with the purpose of developing the mineral resources of the homelands more intensively than in the past.

By far the most interesting occurrence of the decade was the decision to allow private White industrialists to locate in the interior of the homelands; it was hoped that the introduction of modern technology in the backward homeland economies would facilitate the development task. White investment in the homelands was henceforth to occur on a so-called agency basis according to which any White ownership of fixed property was strictly forbidden. The Bantu Investment Corporation, as trustee for the Blacks, was to provide the decentralising firm with land and appropriate buildings against payment of a reasonable rental, while the decentralising firm was to provide the necessary equipment, machinery and working capital from own funds or from funds made available by the Corporation on a loan basis. In terms of an agreement between the Corporation and the industrialist, the Corporation, or its nominee, was to have the right to purchase the industry as a going concern, at a price determined by agreement between the parties, at the expiry of the term of contract.[30]

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29 See Bantu Investment Corporation: Annual Report and Accounts, 31 March, 1968, Government Printer.

30 See Adendorff, J.: The Case for Investment by Industry in the Bantu Homelands, Permanent Committee for the Location of Industry, 1971.

Incentives such as grants, tax and rent concessions, low interest-bearing loans, railage rebates, tender preferences and the cheap provision of basic services, all of which were already applicable to the border areas, were to be made available to enterprises wishing to locate in the Black homelands.[31] Babelegi (in 1969) and Sithebe (1970) were provisionally set aside and developed as growth points in the respective homelands of Bophuthatswana and Kwazulu. It was estimated that in Babelegi about 10,000 Black workers would eventually be provided with manufacturing employment.[32] Further growth points were to be developed at Butterworth and Umtata (in the Transkei), Witzieshoek (in Basotho-quaqua) and Letaba and Seshego (in the northern homelands.)

The Government also decided to introduce some sort of "push effect" into its slow emerging policy of decentralisation. This was done by the implementation in 1967 of the Physical Planning and Utilisation of Resources Act, according to which no land was allowed to be zoned for industrial purposes without the prior approval of the Minister of Planning. The Minister had the authority to curtail or stop industrial expansion in the metropolitan centres, thereby encouraging enterprises to establish or expand in the border areas or interior growth points of the homelands.

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31 Permanent Committee for the Location of Industry: Annual Reports 1969 and 1970, Government Printer.

32 Decentralisation Board: Annual Report 1971, p. 9., Government Printer.

(v) Economic Progress in the Sixties

Notwithstanding the many institutional changes which have been made during the decade of the sixties, not much progress was made in achieving even the modest goal of establishing a sound basis for the future economic development of the homelands. Moreover, development was limited to sectors and regions containing a relatively limited employment potential; by the end of the decade approximately 55 per cent of the total agricultural land of the homelands had been planned,[33] some 70 small townships developed,[34] and an average of about 7,000 industrial jobs provided in the border areas and interior growth points each year.[35] It may be useful to briefly specify the progress made in respect of each of these categories, namely agriculture, township development and industrial decentralisation.

Agricultural development in the homelands, having been partly based on the recommendations of the Tomlinson Commission, depended largely on the implementation of relatively land-intensive (as opposed to labour- and capital-intensive) development programmes.[36] During the decade of the sixties, for instance, the Government spent some R60 million on agricultural activities such as irrigation and water supply (27 per cent), afforestation (25 per cent), soil conservation (16 per cent) and reclamation and fencing (16 per cent).[37] The agricultural

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33 Department of Bantu Administration and Development: Annual Report, Section Bantu Agriculture, G.P.S. 86766 - 1971-72-425, Government Printer p. 3.

34 Institute of Race Relations, 1970, op.cit., p. 161.

35 Permanent Committee, 1969, op.cit., p. 15.

36 See Chapter 4 below.

37 Republic of South Africa, Department of Foreign Affairs: South Africa - a Multiracial Country, Government Printer, December, 1971, p. 35.

development policy rendered very modest results during this time; for example, although 55 per cent of the total land surface had been planned, the lack of intensive development projects almost certainly contributed to the fact that the average grain yield per unit of land remained more or less unchanged at a level comparable with the lowest in the world.[38]

Township development in the homelands proceeded at a rate which far exceeded the rates of industrialisation and employment creation. Approximately one half of the above mentioned 70 townships was erected for the sole purposes of providing accommodation to Blacks who had been moved or resettled from municipal locations in "White" or non-homeland South Africa to the homelands.[39] Lombard[40] has estimated that as many as 194,000 individuals have been resettled from the non-homeland to homeland regions between 1968 and 1970. In another study it is estimated that some 900,000 individuals were resettled between 1959 and 1969.[41] The resettlement policy, so-called, clearly retarded the growth of per capita income in the homelands during the time period in question.[42] The population

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38 Department of Bantu Administration and Development, op.cit., pp. 5 and 70.

39 Lombard, J.A.: "Problems of Regional Economic Programming in The Development of the Bantu Homelands", South African Journal of Economics, Vol. 39, 1971, p. 396.

40 Ibid.

41 Barbara Rogers: The Bantu Homelands, publication of the International Defence and Aid Fund, Christian Action Publications Ltd., London, 1972, p. 39.

42 See p. 31 below.

problem was aggravated by the fact that, whereas industrialisation occurred mainly in the border areas, the development of resettlement towns took place deeper within the homelands, e.g. Sada (in the Ciskei) and Madikwe (in Bophuthatswana). This led to the regional dispersal of industrial location on the one hand, and population settlement on the other.

The policy of decentralisation, as mentioned before, succeeded in providing 78,000 Blacks with employment in secondary industry in and around the homelands between 1960 and 1971.[43] This is equal to an average rate of about 7,000 jobs per year. In the interior growth points, however, only about 4,000 Blacks managed to obtain employment in secondary industries. This was probably due to the fact that the development of the interior points was only commenced with towards the end of the decade.

What has been the overall effect of these policy developments on the economies of the homelands? This is partly reflected in estimates of the gross geographic product (GGP) of the regions. In 1966-67 the GGP of the homelands (at current prices) was estimated at R160 million, or 1.9 per cent of the Republic's GDP, as against R118 million in 1960-61, or 2.4 per cent of GDP.[44] The former amount increases to R408 million if the total outside earnings of homeland migrants temporarily working in non-homeland

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43 For an account of industrial decentralisation in the sixties see Bell, T: Industrial Decentralisation in South Africa, Oxford University Press, 1973.

44 Stadler, J.J.: "Demografiese en Edonomiese Kenmerke van die Suid- Afrikaanse Bantoetuislands," Agrekon, Vol. 9, No. 1, January, 1970, pp. 24-25. These estimates were based on calculations made for the Transkei by the Buro vir Ekonomiese Politiek en Analise of the University of Pretoria.

areas, are added. Allowing for the fact that approximately one fifth of outside earnings are usually sent or taken back to the homelands,[45] the income per head of Blacks permanently living in the homelands (i.e. the de facto Black population) is estimated to have increased from R36 in 1960-61 to R44 in 1966-67. Similarly, income per head of the total de jure population, i.e. those permanently living in the homelands plus homeland migrants, increased from R55 to R75 between the same two years.

Due to changes in the value of money, it is not unlikely that the real income per head of the de facto population could have declined during the decade of the sixties.[46] While it is interesting to note that similar tendencies have occurred in most other African countries,[47] it should be mentioned that, in the case of the homelands, increases in the outside earnings of migrants have probably enabled the total de jure homeland population to maintain and even improve its standard of living. This implies that the homelands have become increasingly dependent upon the non-homeland or White economy during the 1960's.

(vi) Conclusion

There are many possible reasons for the fact that the Government's past efforts to develop the homelands have failed to

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45 See Leistner, G.M.E.: "Economic Aspects of Bantu migrant Labour, Unpublished D.Phil.-Thesis, University of Stellenbosch, 1963.

46 See Stadler, J.J., op.cit., p. 26.

47 See United Nations Food and Agricultural Organisation: African Agricultural Development, New York, 1966.

make much impact on the economies of the homelands. Apart from general budget constraints and specific policy imperfections, the lack of performance of the policy must be generally attributed to the enormous and partly inherited leeway that had to be made up during the sixties and thereafter; the economic problem, so to speak, was clearly aggravated by the Verwoerd Government's apparently half-hearted reaction to the recommendations of the Tomlinson Commission report. Real economic progress was also hampered by the lengthy time lags involved in the attainment of administrative and technical know-how, and the carrying through of institutional reform; the latter is most obviously shown by some of the chieftains' refusal to cooperate with the Government's land reform and agricultural development plans.[48]

The relatively low rate of decentralisation has been generally ascribed to the insufficient magnitude of the incentives as well as to the lack of spatial differentiation embodied in the system of incentives; the incentives favoured the growth points of Bophuthatswana and seriously neglected those of the Transkei.[49] The vagueness and complex nature of the Physical Planning Act, furthermore, caused much uncertainty among the White business community about the

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48 See Houghton, D.H.: The South African Economy, Oxford University Press, Cape Town, 1964, p. 77.

49 Lombard, J.A., op.cit. These points are further discussed in the next chapter.

availability of Black labour and, more generally, the future of industrial expansion in the metropolitan areas of the country[50]; it is now generally recognised that the Act was mainly responsible for the recent decline in fixed investment by the private sector.[51]

Finally, and most importantly, the failure to bring about any significant increase in the Black's standard of living must be largely attributed to the phenomenal increase in the homeland population between 1960 and 1970. The de facto population increased from 4.3 million to 7 million and the de jure one from 4.8 million to 7.7 million between 1960 and 1970.[52] This uncommonly large increase was partly caused by territorial enlargements and the policy of population resettlement. The above-mentioned estimates of population resettlement indicate that as much as 31 per cent of the increase in the de jure population between 1960 and 1970, could have been accounted for by population resettlement. It would therefore appear that in the sixties "... the most essential dimension of the policy was considered to be the programme serving the purpose of population settlement."[53]

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50 Ibid.

51 Bureau for Economic Research: A survey of Contemporary Economic Conditions and Prospects for 1970, University of Stellenbosch, 1969, p. 14.

52 Department of Statistics: Population Census 6 May 1970, Population of Cities, Towns and Rural Areas, Report No. 02-05-01, D1, D10, Government Printer.

53 Lombard, J.A., op.cit., p. 396.

## Chapter 2. Recent Developments in the Homeland Development Policy

The Government has in the past employed a rather vacillating "ability to pay" approach to the problem of homeland budgeting. More often than not, homeland budgets have depended on revenue left over after account had been taken of most other major items of public expenditure; and it seems needless to add that left-overs never really succeed in satisfying even the most unassuming needs.

Realizing the need to introduce some sense of purpose into the policy, the Government recently set more realistic objectives and targets for the future. These are discussed in section (i) below. The policy of industrial decentralisation, which has become one of the most important determinants of economic development in the homelands, is dealt with in sections (ii) and (iii). This is done in a purely descriptive way with the purpose of preparing the ground for our subsequent analysis of economic strategy in the homelands. In the final section some general observations are made, many of which will be more thoroughly explored in the subsequent chapters.

### (i) The Present Objectives of the Policy

The present objective of the policy is to keep the ratio of homeland Blacks to non-homeland Blacks more or less unchanged during the foreseeable future. This is to be done by providing jobs in and around the homelands equal in number to the increase in the male labour force of the (de jure) homeland population.[1]

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1 See Reynders, H.J.J.: "Die Werkverskaffingspotensiaal in die Tuislande met besondere verwysing na Nywerheidsdesentralisasie," in South Africa Bureau for Race Relations: Tuislandontwikkeling - 'n Program vir die Sewentigerjare, SABRA, 1970, pp. 71-72.

The latter task has been estimated to require the creation of about 40,000 jobs in the homelands each year.[2] More recently, Lombard and Van der Merwe[3] estimated that the male labour force of the (de jure) homeland population increased by some 60,000 individuals each year between 1972 and 1974. The latter estimate, in contrast with the former, was based on the recently released results of the 1970 census. It is not possible, however, to ascertain from official policy declarations which of the two estimates, if any, the Government has employed as the employment objective of the homeland development policy.

Nevertheless, the Industrial Development Corporation has recently set itself the task of providing 23,500 jobs each year in the border areas as from 1971, 11,000 of which were to be provided by the Government and 12,500 by private enterprise.[4] The average annual cost of the operation, which was estimated at R80 million, included the expected expenses of the Corporation itself, private enterprise and the Government. On another occasion, the Bantu Investment Corporation declared its intention to provide 25,000 jobs in the homelands between 1970 and 1975.[5] The total capital requirements were estimated at R104 million, half of which was to be allocated to industrial undertakings.[6]

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2 Ibid., p. 71. See also Stadler, J.J.: "Nywerheidsontwikkeling in die Bantoetuislande," Journal of Race Relations, Vol. 18, 1967, p. 176.

3 Lombard, J.A. and Van der Merwe, P.J.: "Central Problems of the Economic Development of the Bantu Homelands", Finance and Trade Review, Vol. X, No. 1, June 1972, p. 7.

4 Industrial Development Corporation of South Africa Ltd.: Annual Report and Accounts for the year ending 30th June, 1968, Government Printer, p. 12.

5 Bantu Investment Corporation of South Africa Ltd.: Annual Report, 1969-1970, Government Printer, p. 1.

6 Ibid.

The figure of R104 million excluded expenses expected to be carried by the decentralising firms themselves, and the cost of providing infrastructure.

No official account seems to have been taken of the remaining part of the above-mentioned employment targets of 40,000 or 60,000 jobs per year, i.e. 40,000 or 60,000 minus 23,500 minus 5,000. It must therefore be assumed that the rest was to be provided by the Xhosa Development Corporation (in the Transkei and Ciskei), Bantu Mining Corporation, Government services in the homelands and, more generally, by local activities induced by these autonomous forms of investment.

While it is not clear whether or not the new targets formed part of the second five-year plan, it should be briefly mentioned that the White and homeland Governments' total expenditure on the development of the homelands amounted to approximately R160 million in 1970-71, R200 million in 1971-72 and R220 million in 1972-73.[7] Only about one quarter of these amounts was raised by the homeland governments themselves in the forms of domestic taxation and property transactions. The remaining three-quarters were voted for by the White parliament from the Consolidated Revenue Fund. This means that the White Government's contribution to homeland development amounted to about R120 million in 1970-71, R150 million in 1971-72 and R165 million in 1972-73.[8] The latter amount was equal to

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7 South African Institute of Race Relations: A Survey of Race Relations in South Africa, Natal Witness, reports for 1970, 1971 and 1972.

8 These figures exclude financial and other assistance given by the Government controlled Industrial Development Corporation to industries locating in the border areas.

3.5 per cent of the Government's total expenditure in 1972-73.[9]

The provision of welfare and health services (31 per cent) and educational facilities (21 per cent) formed the largest proportions of total public expenditure in 1972-73. Next came the development of agriculture, forestry, secondary and tertiary industries (15 per cent) and population settlement (14 per cent). It therefore appears that the provision of infrastructural services is still considered more important than the development of secondary and tertiary industries in terms of the allocation of public expenditure in the homelands.[10]

(ii) Industrial Decentralisation: The Disincentive Measures

It was mentioned in the last chapter that the "push" or disincentive measures of article 3 of the Physical Planning Act were, from the point of view of administration, excessively complex; the incentives also did not appear to be properly directed towards the relative size of the development problem in the various homelands. The Government accordingly appointed an inter-departmental committee to investigate into measures by which to achieve "a more effective implementation of the policy of decentralising industries and establishing industries in decentralised areas."[11] The Committee's finding and recommendations

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9 See Republic of South Africa, Statistical Survey in connection with the Budget Speech, 1973-74, W.P.B.- 73, Government Printer, p. 33.

10 This is analysed in more detail in Chapter 5 below.

11 Department of Industries: White Paper on the Report by the Interdepartmental Committee on the Decentralisation of Industries, Government Printer, 1972, p. 1. - hereafter referred to as "the Committee". See also Diamond, C.R.: "White Paper on the Riekert Committee Report - An Appraisal", South African Journal of Economics, Vol. 40, 1972, pp. 44-60.

were accepted by the Government and published in a White Paper which was issued by the Department of Industry in 1972.[12]

The new disincentive measures are the equivalent of a somewhat disguised tax on employment, according to which no industry is allowed to expand in the Pretoria-Witwatersrand-Vereeniging (PWV), Durban-Pinetown (DP) and other northern metropolitan centres[13] unless it is either (1) classified as location-bound or (2) has a Black-White employment ratio equal to 2 or less. In other words, any non-location-bound or divertible industry, the Black-White employment ratio of which exceeds 2, is not permitted to establish or expand in the PWV, DP and other northern metropolitan areas. These industries are expected to locate in the growth points where they may qualify for a wide range of financial concessions. Industrial expansion in the remaining two metropolitan centres, namely Port Elizabeth-Uitenhage and the western Cape, is subject to the prior approval of the Department of Planning. The latter centres are excluded from the disincentive measures because of a shortage of non-White labour in the case of the former, and a preponderance of Coloured labour in the western Cape.[14] In both these centres, however, a concerted effort is being made to restrict the employment of Blacks : "These areas must be looked upon as mainly the employment sphere of the Whites and Coloureds, and the industrial development in these areas will have to become adjusted to this pattern of labour supply."[15]

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12 Department of Industries, op.cit.

13 Ibid., p. 8.

14 Ibid.

15 Ibid., p. 10.

The Department of Planning was to prepare a list of those industries which can be regarded as location-bound and which would be permitted to establish or expand in any of the controlled areas, even though their Black-White employment ratio's exceeded the legal limit. The Committee further submitted a list of 21 growth points of which most had already been established in and around the homelands. The list is represented in Table 2.1 and illustrated in Map 1 of Appendix 1. The table excludes the border areas of Rosslyn (near Bophuthatswana) and Hammersdale (near Kwazulu) both of which had already been fully developed at the time of the Committee's report. From the table it appears that no fewer than 15 of the 21 growth points are situated in the White border areas of the country. The reason for this is almost certainly the fact that, in contrast with the interior growth points, the border areas are relatively well endowed with basic infrastructural services. This concentration on the border areas indicates that the Committee still thought it necessary to "break down prejudices and make a breakthrough with the programme."[16]

It was further decided that the selection of growth points will in future be undertaken by a so-called Growth Points Committee, under the chairmanship of the Secretary for Planning, and consisting further of representatives of various state departments and institutions. The Departments of Planning and of Bantu Administration and Development were to provide the infrastructure in the border areas and homelands respectively, while the new system of incentives was to be supervised by a newly appointed Decentralisation Board.

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16 Permanent Committee for the Location of Industry: Annual Report 1966, Government Printer, p. 1.

Table 2.1 The Growth Points of the Homelands

| | White Border Area | Interior Growth Point |
|---|---|---|
| Basotho-quaqua : | Harrismith | Witzieshoek |
| Bophuthatswana : | Brits<br>Mafeking<br>Rustenburg<br>Zeerust | Babelegi |
| Gazankulu : | Phalaborwa<br>Tzaneen | |
| Kwazulu : | Ladysmith<br>Newcastle<br>Richard's Bay | Sithebe |
| Lebowa : | Pietersburg<br>Potgietersrus | Seshego |
| Xhosa-Ciskei : | East London-Berlin<br>King William's Town<br>Queenstown | |
| Xhosa-Transkei | | Butterworth<br>Umtata |

Source: Department of Industries, op.cit., pp. 15-16.

Finally, financial and other concessions were still to be granted by the Industrial Development Corporation to industries locating in the border areas, and by the Bantu Investment and Xhosa Development Corporations to industries locating in the interior growth points of the homelands.

(iii) The Incentive Measures

Apart from the provision of infrastructural services, the proposed incentive measures can be divided into two general categories, namely the financing of capital expenditure through low interest-bearing loans, and the alleviation of current cost disadvantages by means of income tax concessions. While a more detailed account of the incentives is given in Chapter 6 below, it may be useful to briefly summarize the major financial incentives proposed by the Committee.[17] These are as follows:

(1) the granting of loans equal to 45 per cent of the value of the additional land and buildings in the border areas; in the interior growth points land and buildings are provided on a lease basis;

(2) the granting of loans equal to 45 per cent of the value of the additional plant and current assets;

(3) the reduction of the tax payable by an amount equal to 10 per cent of the value of the additional plant during the first year of operation;

(4) the reduction of the tax payable by an amount equal to a specified percentage of the total wage bill for Blacks during the first two years of operation;

(5) the existence of state tender price preferences;

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17 See Department of Industries, op.cit., pp. 19-26; and Decentralisation Board: Annual Report 1972, Government Printer.

(6) the granting of housing loans for White personnel at low interest rates; and

(7) the granting of rail rebates on the transport costs of manufactured goods.

These concessions, having been in existence roughly between 1972 and 1975, do not appear to have had much affect on the rate of industrial decentralisation. In the three year-period 1972-74, for example, the number of additional Black employment opportunities created by decentralised industries in the growth points amounted to 24,900 or 8,300 per year;[18] this compares rather unfavourably with the corresponding estimate of about 7,000 per year for the period 1960 to 1971.[19] On the other hand, it appears that the interior growth points have performed much better in this respect during the period 1972-75 than before; in some years more than half of the total number of additional employment opportunities was created in the interior growth points.[20] This may be partly due to the fact that some concessions are granted on a more liberal scale to industrialists locating in the interior growth points, than to those locating in the border areas.[21]

Some of the above concessions have very recently been increased[22], and in Chapter 6 below an attempt is made to determine

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18 Decentralisation Board: Annual Reports for 1972 to 1974, Government Printer.

19 See p. 28 above.

20 See Table 5.3 in Chapter 5 below.

21 This is further discussed in Chapter 5 below.

22 See Eastern Province Herald: "Big New Boost for Border Industries", 5 June, 1975, p. 11.

the likely effect of these increases on the rate and direction of industrial decentralisation. The major changes have been in respect of the tax concession on the additional plant (see point (3) above) and the tax concession on the wage bill for Blacks (point (4)); the tax concession on the additional plant was raised from 10 to 30 per cent for the first three years of operation, while the two year concession on Black wages was raised to seven years. It is possible that the latter increase may provide an additional inducement to labour-intensive industries and, consequently, to those growth points which have a relative advantage in the supply of unskilled Black labour. This may well be offset, however, by the increase in the tax concession on the additional plant. While these latest increases may succeed in raising the overall rate of decentralisation, it seems unlikely that they will lead to a more equitable distribution of industrial activity among the various homelands.[23]

(iv) Conclusion

The present decentralisation policy does not appear to be much different from previous versions thereof. Although the new disincentive measures may provide some degree of certainty to both industrialist and planner, the system of incentives seems to be more or less the same as before. The Committee would therefore appear to have employed as its major task the removal of business uncertainty among industrialists in the metropolitan centres, rather than the economic upliftment of the homelands; to this extent the policy fails yet again to encompass the whole range of regional policy.

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23 See Chapter 6 below.

Although the Government's acceptance of the Committee's recommendations probably indicates the sincerity of its policy intentions, the disincentive measures, notwithstanding their unambiguous and simplistic nature, remain difficult to administer and prone to fraud; for instance, firms applying to be exempted from the labour restrictions, arguing that industrial expansion over space is impracticable, may overstate their ratio's of White to Black labourers in order to acquire the benefit of any possible doubt.[24] Furthermore, while a more specific evaluation of the new incentives is left until Chapter 6, the general criticism seems to be the fact that the system of incentives is not sufficiently differentiated over space; this may lead to the problem that firms may decentralise to the various homelands irrespective of the relative economic needs of the regions.[25]

Finally, the Committee had nothing to report on the spatial allocation of such services as town planning and housing in the homelands. The spatially dispersed development of resettlement townships on the one hand, and towns serving the decentralisation of industry on the other, has an obvious decelerating effect on the general economic development of the homelands. In view of the above-mentioned numerical dimensions of population settlement in the homelands, the Committee must be

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24 The Decentralisation Board has actually expressed its concern over such illegalities. (See Decentralisation Board: Annual Report 1974, p. 3.)

25 See Lombard, J.A.: "Problems of Regional Economic Programming in the Development of the Bantu Homelands," South African Journal of Economics, Vol. 39, 1971, p. 395.

discredited for failing to explore means to establish a sound coordinating basis between the state departments and institutions responsible for township development, and those responsible for the decentralisation of industry.

## SECTION II. THE EMPLOYMENT PROBLEM IN THE HOMELANDS

### INTRODUCTION

(i) General Outline

It is the purpose of Section II to estimate the size and extent of the employment problem in the homelands. In this study the "employment problem" refers to people who lack adequate employment. These include the unemployed as well as the underemployed.[1] In a more dynamic sense, the employment problem also refers to the growth of the labour force insofar as new entrants to the labour force would, in the absence of economic development, be left without adequate employment.

It was pointed out in chapter 2 that the general objective of the homeland development policy is to keep the ratio of homeland to non-homeland Blacks more or less constant in the forseeable future. This is generally assumed to require the provision of new employment opportunities equal in number to the increase in the male labour force of the homelands, i.e. males aged 15 to 64 years. It has been estimated, for example, that the male labour force of the homelands increased by some 60,000 males per year between 1972 and 1974.[2] An employment target of the same order was accordingly set for that period.

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1 This concept is explained in Chapter 4 below.

2 Lombard, J.A. and Van der Merwe, P.J.: "Central Problems of the Economic Development of the Bantu Homelands", Finance and Trade Review, Vol X, No. 1, June 1972, p. 7.

This and other similar studies[3] do not, however, illuminate the real nature and size of the problem facing the developing economies of the homelands. Firstly, they fail to recognise that the employment problem forms part of a larger and more complex problem, the solution to which is only partly dependant upon the provision of employment opportunities to the unemployed. The latter problem consists not only of a lack of employment, but also of low incomes, ill-health and insufficient education. This point is further discussed in the second part of this introduction. Secondly, little or no allowance is made for certain demographic and other factors, such as the female labour force and the possibility of underenumeration in past censuses, both of which may significantly affect the size and extent of the employment problem. These factors are analysed in Chapter 3 where an attempt is made to estimate the growth of the homeland labour force within the next 10 years.

Lastly, the referred to studies have very little to report on the adequacy of existing employment opportunities in the homelands. It is not enough to define the employment problem in terms of future increases in the labour force of the homelands. This represents only part of the employment problem.

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3 See for example Van der Merwe, P.J.: "Die Bantoe in die Suid-Afrikaanse Ekonomiese Stelsel, Deel VIII, Unpublished Report, Department of Economics, University of Pretoria, 1968; Smit, P.: Die Ontwikkeling van die Bantoetuislande - Probleme en Vooruitsigte, Publication of the African Institute, No. 21, July 1969; and Reynders, H.J.J.: "Die Werkverskaffingspotensiaal in die Tuislande met besondere verwysing na Nywerheidsdesentralisasie," in Yearbook of SABRR, 1970.

The other part, which is dealt with in Chapter 4, refers to the present existence of inadequate employment opportunities in the homelands. This is generally defined as the problem of underemployment, and in Chapter 4 this problem is analysed within the context of the agricultural development policy in the homelands.

(ii) A Framework of Analysis

Some concern has recently been expressed over the use of the terms "employment" and "unemployment" in the context of developing economies.[4] In developed economies the terms usually refer to the large number of people who sell their labour to others in well-defined markets; an unemployed person in a developed economy is someone without wage-remunerative work who actively seeks wage-employment. In developing economies, on the other hand, many people without wage-employment are either family workers in subsistence agriculture, or are casually self-employed in what has come to be known as the informal sector. These people are not unemployed in the usual sense of the word. They simply lack adequate "livelihoods".[5] And it is inadequate livelihoods, not unemployment, which is the real problem to which development policy should be directed.

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4 See for example Weeks, J.: "Does Employment Matter?", in Jolly, R. et.al. (eds.): Third World Employment, Penguin, 1973, pp. 61-65; Hunter, Guy: "Employment Policy in Tropical Africa: Need for a Radical Revision", International Labour Review, Vol. 105, 1972, pp. 35-57; and Singer, H. and Jolly, R: "Unemployment in an African Setting: Lessons of the Employment Mission to Kenya", International Labour Review, Vol. 107, February 1973, pp. 103-115.

5 Hunter, Guy, op.cit., p. 49.

The problem of inadequate livelihoods, however, is a multi-dimensional one. It consists of a complex mixture of such problems as low incomes, both in the absolute and relative sense, unemployment, underemployment, ill-health and a lack of education.[6] It includes people in wage-employment who have low (i.e. sub-minimum) incomes; it includes people with high incomes who are unemployed or poorly educated; it also includes educated people in good health who are unemployed; and so on.

Whether or not the problem is measured in terms of income or employment or, for that matter, health or education, largely depends on the availability of data. Ideally, the use of a minimum standard pertaining to all indicators of the problem is likely to provide an accurate measure of the number of people lacking adequate livelihoods. This is, however, an administratively formidable task[7] and, in any case, it is a fact that most developing countries do not have an unlimited availability of data. It may therefore be necessary, perhaps even preferable, to use only one (or two) indicators in estimating the size and extent of the problem. But which one? Which one would most closely approximate the number of people who lack adequate livelihoods? For this it is necessary to determine, in a conceptual way at least, the extent to which people who fulfill the minimum standard of one indicator, fail to

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6 See also Seers, D.: "What are we trying to Measure?" Journal of Development Studies, Vol. 8, 1971-72, pp. 821-834.

7 It should be determined, e.g., whether the difference in accuracy between using one, two or more indicators outweighs the corresponding difference in administrative and other costs.

fulfill the minimum standards of the other indicators. For example, is the number of people on high (i.e. above-minimum) incomes who lack good health and adequate employment, larger or smaller than the number of people in good health and employment who have low incomes?

Income levels are probably as good a measure of the problem as any other; people on low incomes are also likely to be without adequate employment, good health and sufficient education. In most developing countries, however, income data are severely limited. The homelands are no exception. Income data in the homelands consist only of total income and the income per head of population. There is thus no way of knowing the distribution of income between people and, hence, the number of people who have low incomes. It is for this reason that the present study attempts to estimate the magnitude of the development problem on the basis of the lack of adequate employment opportunities. This is not to argue that employment opportunities should be made available to each and every person who lacks adequate employment; it merely serves to indicate the size and extent of the larger problem of inadequate livelihoods.

## Chapter 3. The Growth of the Homeland Labour Force

In this chapter we propose to estimate the growth of the homeland labour force within the next 10 years. Future increases in the labour force constitute one of two important dimensions of the employment problem in the homelands. The other one, namely the adequacy of existing employment opportunities, is explored in Chapter 5.

The accuracy of future projections largely depends on the availability and reliability of past estimates. This is also true of projections of the homeland labour force. In sections (i) and (ii), for example, the growth of the male labour force is estimated on the basis of official and other corresponding estimates of the past. This requires information on the de jure male population and labour force in the last census year, i.e. 1970, as well as information on the corresponding average growth rate between the last and second-last census years. The former information is provided in section (i) and the latter in section (ii). In section (iii) an attempt is made to broaden the definition of "labour force" so as to make it more applicable to the developing economies of the homelands. It is argued that any attempt to predict future changes in the magnitude of the employment problem, ought to recognise the fact that, in poor communities, many people below and above the respective ages of 15 and 64 years may lack adequate employment. In section (iv) we estimate the increase in the number of female workers during the period in question. The final section summarizes and interprets the findings within the context of the homeland development policy.

(i) The Male Population and Labour Force

(i) The Male Population and Labour Forceomelands is more difficult to estimate than that of most other countries. This is so because of the large number of males from the homelands who work in the non-homeland parts of South Africa on a temporary basis. Many of these migrants are enumerated outside the borders of the homelands and are therefore excluded from official estimates of the homeland population. It follows that, at any point of time, there is a substantial excess of females over males in the homelands. In Table 3.1 it is shown that the number of permanently present or de facto females amounted to about 4 million, and the number of de facto males to about 3 million in 1970. This large preponderance of females over males, which is largely caused by the absence of male migrants from the homelands, provides a useful basis on which to estimate the number of temporary male migrants.

The estimation procedure can be explained with the aid of Table 3.1. Columns 2 and 3 represent estimates of the permanently present or de facto homeland population, and column 7 estimates of the de facto non-homeland population in 1970. These figures are directly ascertainable from the offical publications of the Department of Statistics. Columns 4 and 8 contain estimates of the number of temporary male migrants which, when added to the de facto male population, give the de jure male population of the homelands. Let n stand for the number of temporary male migrants; then

$$n = Mj - Mf$$

$$= aFf - Mf \qquad (Mj = aF_f)$$

(,000)

| HOMELAND | HOMELAND POPULATION | | | | | NON-HOMELAND POPULATION | | | GRAND TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| | FEMALES | MALES | | | TOTAL de Jure | De facto Males and Females | Temporarily present migrants - males | De jure males and females | |
| | | De facto | Temporarily absent Migrants | De jure | | | | | |
| | 1 | 2 | 3 = 7 | 4 = 2+3 | 5 = 1+4 | 6 | 7 = 3 | 8 = 6-7 | 9 = 5+8 |
| Basotho-qwaqwa | 14 | 11 | 2 | 13 | 27 | 1,219 | 2 | 1,217 | 1,244 |
| Bophuthatswana | 467 | 402 | 37 | 439 | 906 | 1,073 | 37 | 1,036 | 1,942 |
| Gazankulu | 160 | 107 | 47 | 154 | 314 | 261 | 47 | 214 | 528 |
| Kwazulu | 1,200 | 897 | 169 | 1,066 | 2,266 | 1,879 | 169 | 1,710 | 3,976 |
| Lebowa | 626 | 457 | 113 | 570 | 1,196 | 962 | 113 | 849 | 2,045 |
| Swazi | 66 | 32 | 9 | 61 | 127 | 361 | 9 | 352 | 479 |
| Venda | 162 | 103 | 30 | 133 | 295 | 106 | 30 | 76 | 371 |
| Xhosa-Ciskei | 294 | 230 | 38 | 268 | 562 | 1,709 | 38 | 1,444 | 3,967 |
| Xhosa-Transkei | 1,024 | 710 | 227 | 937 | 1,961 | | 227 | | |
| TOTAL | 4,013 | 2,969 | 672 | 3,641 | 7,654 | 7,570 | 672 | 6,898 | 14,552 |

Source: Adapted from -

1. Department of Statistics: Statistical News Release, No. 67, Government Printer, June 1972, pp. 1-7.
2. The Hon. J.J. Loots, Minister of Statistics: Press Statement, 8 February 1972, p. 31.

where Mj represents the number of de jure homeland males, Mf the number of de facto homeland males, Ff the number of de facto homeland females and a the ratio of males to females of the total South African born Black population. A hypothetical example might be helpful: Let the number of total South African born males and females be 100 and 105 respectively, the number of de facto homeland males and females 30 and 70, and the number of non-homeland males and females 70 and 35 respectively. Let it be further assumed that only males migrate to and from the homelands, and that the male-female ratio of 100 to 105 applies to both the de jure homeland and de jure non-homeland populations. The number of de jure homeland males is therefore equal to $\frac{100}{105} \times 70$ or 67. The number of temporary migrant males, in turn, equals the difference between the de jure and de facto homeland males, namely 67 - 30 or 37.

From Table 3.1 it can be seen that in 1970 approximately 670,000 homeland males, or 18 per cent of the de jure male population of the homelands, worked outside the homelands on a temporary basis.[1] It is also evident that the number of male migrants varied greatly between the individual homelands. No less than 30.6 per cent of Gazankulu's de jure male population worked outside the homeland in 1970. The corresponding percentages for Kwazulu, the Ciskei and Bophutatswana were 24.2, 14.3 and 8.5 respectively.

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1 Since it is assumed that females do not migrate between the homelands and the rest of South Africa, this figure may well understate the actual number of temporary migrants; there are, however, no available data on female migration.

The male labour force (i.e. males aged 15 to 64 years) of the de jure homeland population can be derived from the information given in Table 3.1. In Table 3.2 the estimated number of male migrants is added to the de facto male labour force to give the de jure male labour force of the homelands in 1970. The table assumes that all male migrants are aged between 15 and 64 years;

Table 3.2 The Male Labour Force of the Homelands - 1970
(males aged 15 to 64 years)

(,000)

| HOMELAND | De facto male labour force | Temporarily absent males | De jure male labour force |
|---|---|---|---|
| | 1 | 2 | 3 |
| Basotho-quaqua | 4 | 2 | 6 |
| Bophuthatswana | 150 | 37 | 187 |
| Gazankulu | 38 | 47 | 85 |
| Kwazulu | 353 | 169 | 522 |
| Lebowa | 166 | 113 | 279 |
| Swazi | 21 | 9 | 30 |
| Venda | 36 | 30 | 66 |
| Xhosa-Ciskei | 94 | 38 | 132 |
| Xhosa-Transkei | 289 | 227 | 516 |
| TOTAL | 1,151 | 672 | 1,823 |

Source: 1. Department of Statistics, op.cit.
2. Table 3.1

this seems to be a reasonable assumption in view of the large preponderance of females over males in the 15 to 64 age category of the de facto homeland population.[2] The de jure male labour force, as

2 Department of Statistics, op.cit., p. 6.

shown in column 3 of Table 3.2, forms the basis of our subsequent attempt to estimate the growth of the male labour force of the homelands.

(ii) Growth of the Male Labour Force

Which rate of growth should one use to estimate the growth of the male labour force of the homelands within the next 10 years? Should it be one related to the average rate at which the homeland population has increased in the past? Or one associated with the rate at which the total Black population of South Africa has increased?

The total South African born Black population increased from 10.3 million to 14.5 million at an average rate of about 3.5 per cent per year between 1960 and 1970.[3] In contrast, the de jure homeland population is estimated to have grown from 4.8 million to 7.7 million at an average annual rate of no less than 4.8 per cent during the same period.[4] This extraordinarily high rate may well be partly attributable to the above-mentioned

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3 Ibid., p. 11.

4 Ibid.

policies of homeland consolidation and human resettlement.[5] Unfortunately, there are no reliable statistics available on the number of people affected by either the consolidation or resettlement policies. Nor is there any time schedule which might indicate possible future trends in the execution of these policies. It is therefore not possible to make reliable projections of the male labour force on the basis of past increases in the homeland population.

The same is not true of the rate of 3.5 per cent at which the total South African born Black population increased between 1960 and 1970. Such a rate, if used to project the male population and labour force of the homelands, would be more in keeping with the stated objective of keeping the ratio of homeland to non-homeland Blacks more or less constant in the forseeable future. The latter ratio, for example, will remain unchanged only if the homeland population grows at the same rate as the non-homeland population - that is, at the rate at which the total Black population grows.

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5 See p. 27 above. It has been estimated (Rogers, B.: The Bantu Homelands, International Defence and Aid Fund, Christian Action Publications, 1972, p. 39) that as many as 900,000 individuals could have been resettled from the rest of South Africa to the homelands between 1960 and 1970. This estimate, however, seems to have been based on the assumption that the rate of natural increase in the homeland population equalled that of the non-homeland population during the same period. For example, if we add 900,000 individuals to the above-mentioned increase in the non-homeland population, and subtract the same number from the increase in the homeland population, we find that the homeland population is assumed to have increased at the same natural rate as the non-homeland population. It seems therefore highly unlikely that the estimate of 900,000 was obtained from official or other sources.

Without any change in the present pattern of international migration, use of the rate of 3.5 per cent would, of course, assume a sudden relaxation in the consolidation and resettlement policies. At the same time, however, it would also assume that the natural growth rate of the homeland population is equal to that of the non-homeland population. But the latter rate may well exceed the former; for example, while the average death rate of the homeland population is likely to be higher than that of the non-homeland population,[6] the average birth rate is not likely to differ much between these two populations. In 1960, for example, the infant mortality rate was found to be higher in the rural than in the urban areas of South Africa.[7] Since the homelands are much less urbanized than the rest of South Africa, it follows that a similar difference may have existed between the homelands and the rest of South Africa in 1960. It has further been found that birth rates do not differ much between the urban and rural communities of some African countries.[8] The same may be true of the homelands and rest of South Africa. This is indicated,

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6 This may be due to the greater availability of medical and health services in the rest of South Africa than in the homelands. (See Houghton, D.H.: The South African Economy, Oxford University Press, 1964, p. 36.).

7 Department of Statistics, Population Census 1960, Volume X; Fertility, Government Printer.

8 Caldwell, J.C.: Introduction, Part II in Caldwell and Okonjo (eds.), The Population of Tropical Africa, Longmans, Green and Co. Ltd., 1968, pp. 336-337.

firstly, by the small difference in youthfulness between the homeland and (South African born) non-homeland populations.[9] Secondly, the proportion of homeland females who are in the reproductive stages of life, is more or less equal to the corresponding proportion of South African born females in the rest of South Africa.[10] It seems therefore likely that the difference between birth and death rates, and hence the natural rate of population growth, is greater in the rest of South Africa than in the homelands.

Once again, there are no data on urban-rural birth and death rates by which the latter hypothesis could be tested. And it must therefore be assumed that any such difference in the rate of natural growth between the homeland and non-homeland populations, will be offset by increases in the homeland population brought about by the consolidation and resettlement policies.

Finally, it should be noted that the rate of 3.5 per cent applies to South African born Blacks only, and not to foreign Blacks. It therefore excludes population increases caused by the immigration of Blacks from other African countries. There is, furthermore, very little evidence that South African Blacks emigrate to other African countries. From this it follows that the rate of 3.5 per cent must have been entirely due to the

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9 Department of Statistics, South African Statistics 1970, Government Printer, p. A-43.

10 Ibid., p. A-42.

difference between birth and death rates of the total Black population between 1960 and 1970. But this is not supported by available estimates of the birth and death rates of the total Black population. In the 1960's, for example, an average crude death rate of 16 per 1,000 was estimated for the African populations of Southern Africa.[11] At such a rate, the crude birth rate would have to be as high as 51 per 1,000 to ensure that the natural increase in population is of the order of 3.5 per cent. This compares with an estimated crude birth rate of about 42 per 1,000 for the total Black population of South Africa in the 1960's.[12]

All this raises the possibility that the Black population might have been underenumerated during the official count of 1960. The only available estimate of underenumeration is one made by Sadie[13] in his recent revision of the official data on the Black population. He used the concept of a stable population, which posits a functional relationship between fertility, mortality and the age structure, to prove that the Black population was underenumerated by about 6 per cent in 1960, involving some 700,000 individuals.[14] If the latter figure is added to the

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11 Hance, W.A.: Population, Migration and Urbanisation in Africa, Columbia University Press, 1970, p. 26.

12 Sadie, J.L.: "An Evaluation of Demographic Data Pertaining to the Non-White Population of South Africa: Part III: The Bantu Population", South African Journal of Economics, Vol. 38, No. 2, June 1970, p. 185.

13 Op.cit. See Also Sadie, J.L.: "Labour Supply in South Africa," Finance and Trade Review, Volkskas Ltd., December 1971, p. 223.

14 Ibid.

official estimate of the Black population in 1960, the above rate of 3.5 per cent reduces to one of 2.9 per cent. This rate seems to be fairly consistent with those natural growth rates that can be derived from available estimates of the birth and death rates of the total Black population in the 1960's.

In Table 3.3 the rate of 2.9 per cent is used to estimate the growth of the male labour force of the homelands between 1975 and 1985. It is assumed that the labour force proportion of the total male population will remain constant during the same period; this follows from Sadie's finding that the expected change in the labour force proportion appears to be so small as to be virtually negligible.[15] The table indicates that the male labour force of the homelands can be expected to increase by about 65,000 males each year between 1975 and 1980, and by 75,000 males each year between 1980 and 1985. By far the largest increases are likely to occur in Kwazulu and the Transkei. In each of these homelands the labour force is estimated to increase by about 18,000 and 21,000 males each year during the pespective periods 1975-80 and 1980-85. The male labour force of Basotho-quaqua, on the other hand, is likely to increase by only 200 individuals each year between 1975 and 1985; similarly, the corresponding increases in the homelands of the Swazi and Venda are about 1,000 and 2,500 males respectively. There are thus marked differences in the increase in the male labour force between the various homelands.

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15 Ibid.

Table 3.3 The Estimated Increase in the Male Labour Force of the Homelands

(,000)

| HOMELAND | MALE LABOUR FORCE | | | AVERAGE ANNUAL INCREASE IN MALE LABOUR FORCE | |
|---|---|---|---|---|---|
| | 1975 | 1980 | 1985 | 1975-80 | 1980-85 |
| Basotho-qaqaqa | 8 | 9 | 10 | .2 | .2 |
| Bophuthatswana | 217 | 250 | 288 | 6.6 | 7.6 |
| Gazankulu | 99 | 114 | 131 | 3.0 | 3.4 |
| Kwazulu | 602 | 694 | 801 | 18.4 | 21.4 |
| Lebowa | 322 | 372 | 429 | 10.0 | 11.4 |
| Swazi | 34 | 39 | 45 | 1.0 | 1.2 |
| Venda | 76 | 88 | 102 | 2.4 | 2.8 |
| Khosa-Ciskei | 152 | 176 | 203 | 4.8 | 5.4 |
| Khosa-Transkei | 595 | 686 | 792 | 18.2 | 21.2 |
| TOTAL | 2,105 | 2,428 | 2,801 | 64.6 | 74.6 |

Source:

1. Tables 3.1 and 3.2
2. Sadie, J.L.: "Labour Supply .....," op.cit.

(iii) The Economically Active Male Population

(iii) The Economically Active Male Population,nomic development is to satisfy the socio-economic needs of as many people as possible; development policy should aim to provide employment and other opportunities to all individuals who are in need of such opportunities. It seems therefore justifiable to question the custom of defining the employment problem in terms of the number of people aged between 15 and 64 years. In economically necessitous communities, the decision to work, if one exists, is hardly ever determined by a given standard of physical or mental capacity, let alone the age factor. In the last instance, the state of employment is determined by the economic and social needs of the people concerned.

It has recently been suggested that the number of economically active or working males in the homelands can be assumed to be more or less equal to the number of homeland males aged between 15 and 64 years.[16] This implies that for every economically active male below or above the respective ages of 15 and 64 there is, on the average, an inactive compeer in the 15 to 64 age category. It is the purpose of this section to determine the validity of this seemingly convenient assumption.

International comparisons in respect of the economically active population have very little meaning inasfar as official interpretations of the concept of an economically active person take on differences of quite an alarming proportion. The position is worsened by an acute shortage of research and data relating

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16 Stadler, J.J.: "Demografiese en Ekonomiese Kenmerke van die Suid-Afrikaanse Bantoetuislands", Agrekon, Vol. 9, No. 1, Jan. 1970, p. 24.

to the rural populations of developing countries. Nevertheless, the relatively high degree of youthfulness of these latter populations generally results in a labour force which is proportionally much smaller than that of economically rich populations.[17] This relatively small labour force, together with the urgent need to raise the standard of living, cause the rate of economic participation to be relatively high in developing countries; in many developing countries almost all males aged between 15 and 64 years are economically active.[18] Moreover, in the rural areas of developing countries many males below 15 and above 64 years of age are reported to be economically active.[19]

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17 In developing countries about 42 per cent of the population is less than 15 years old, compared with 25 per cent in Europe and 31 per cent in North America. (See Turnham, D.: The Employment Problem in Less Developed Countries, Development Centre Studies, OECD, Paris, 1971, Employment Series No. 1, Footnote 1, p. 23.).

18 See Sadie, J.L.: Demographic Aspects of Labour Supply and Employment, paper delivered at U.N. World Population Conference, Belgrade, 1965, p. 12.

19 It has been estimated that approximately 20 out of every 100 individuals between the ages of 10 and 14 are economically active in the rural areas of developing countries (ibid., p.17). Similarly, a comparatively large proportion of males above 64 years of age seems to remain economically active in developing countries - rates varying between 60 and 90 per cent are not uncommon. (See International Labour Office, Yearbook of Labour Statistics, ILO, 1970, pp. 9-25).

This usually arises from the absence of migrant males, a lack of educational facilities and the need to overcome the socio-economic burden of large families and the insufficient utilisation of resources.

These two factors, namely a high rate of labour force participation and the possibility of males below 15 and above 64 years of age being economically active, may cause the economically active male population to exceed the male labour force of developing countries. In 1970 it appeared that in 10 African countries the number of economically active males exceeded the male labour force by an average porportion of 107 to 100.[20] Furthermore, the corresponding average mean proportion of 11 Latin American countries was equal to 105.5 to 100 during the same year.[21] In the homelands, however, the corresponding magnitudes seem to vary rather greatly between successive censuses. In 1960 the number of economically active males in the Transkei was estimated at 254,000, compared with a male labour force of 230,000.[22] This represents a ratio of economically active males to the male labour force in the Transkei of approximately 106 to 100. Ten years later, however, it appears that the number of economically active males was more or less equal

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20 Adapted from International Labour Offic, op.cit., pp. 8-25.

21 Ibid. See also Centro Latinoamericano de Demografia, Studies of the Economically Active Population, U.N. Seminar on Evaluation and Utilisation of Population Census data in Latin America, Santiago, (E/CN. 9/Conf. 1/1.1), Nov. 1960, p. 27.

22 Stadler, J.J., op.cit., p. 24.

to the male labour force of the Transkei.[23] The same equality seemed to have applied to the other homelands in 1970.

This rather surprising result must be partly attributed to the fact that, in the official publications of the Department of Statistics, unemployed males are included in the non-economically active male population, rather than the economically active population of the homelands.[24] Furthermore, estimates of unemployment in the homelands are not separately shown in the publications of the Department. It is therefore impossible to determine the extent to which male unemployment might affect the real size of the economically active male population of the homelands; and it must be assumed that, for the purposes of the present study, the number of economically active males in the homelands is more or less equal to the number of males aged between 15 and 64 years.

(iv) Female Workers

It seems necessary to question the rationale behind the customary exclusion of females from estimates of the future growth of the homeland labour force. It is usually argued, for example, that the male is the main breadwinner in African society and that, by implication, the provision of employment opportunities to males would automatically ensure sufficiently improved conditions of living to each individual family.[25] Whether

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23 See for example Department of Statistics: Population Census: Sample Tabulation of Bantu - Age, Occupation, Industry, School Standard, Birthplace, Report No. 02-02-02, Government Printer, March 1973, p. 14.

24 Ibid.

25 See Reynders, H.J.J., op.cit., p. 71.

or not males are the main breadwinners, however, seems far less important than the indisputable fact that they do not form the only breadwinners in African society. The relatively high rates of female participation in the economies of most developing countries must, in the first instance, be ascribed to the inadequacy of male earnings relative to the economic needs of the family and, in the second, to prevailing customs.

As is the case with economically active males, the data on female labour are subject to problems of definition and, as a result, are not strictly comparable on an international basis. The main difficulty lies in the identification of women who are self-employed in the subsistence sector of the economy. This category of workers is widely reported to be numerically strong and to make a significant contribution to the total output of the economy.[26] In traditional African society, for example, women have the responsibility of tilling the soil, planting and harvesting the crops and processing the harvests into edible form. They also frequently operate as petty traders in a service sector which is much less institutionalised than that of developed countries.[27]

In any event, the estimated number of female workers in the homelands was equal to about 704,000 in 1970, or 17.6 per cent of the total female population of the homelands.[28] This

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26 See International Labour Organisation: The Employment and Conditions of Work of African Women, I.L.O. Publication, 1964, p. 101.

27 Sadie, J.L.: "Demographic Aspects ....," op.cit., p. 25. See also Hart, K.: "Informal Income Opportunities and Urban Employment in Ghana", in Jolly, R. et.al.(eds.): Third World Employment, Penguin, 1973, pp. 66-70.

28 Department of Statistics: Population Census: Sample Tabulation ..... op.cit., p. 16.

number included some 411,000 farm and forestry workers and 157,000 so-called non-classifiable workers. Since the agricultural sector is largely organised on a subsistence basis in the homelands, the latter estimates indicate that subsistent farm workers may well have been included in the official estimate of female workers in the homelands. In Table 3.4 we provide estimates of the future increase in the number of female workers in each of the homelands. Due to a lack of data, it is assumed that the proportion of female workers to total females will be the same in 1975, 1980 and 1985 than in 1970.[29] The table shows that the number of female workers in the homelands can be expected to increase by about 25,000 each year between 1975 and 1980, and by 29,000 each year between 1980 and 1985; the variation between the individual homelands seems to follow the same pattern as the corresponding variation in the growth of the male labour force of the homelands.

(v) Conclusion

In this chapter an attempt was made to estimate the growth of the total labour force of the homelands between 1975 and 1985. This included the increase in males aged 15 to 64 years, which was assumed to be equal to the number of economically active males, as well as the increase in the number of female workers. It was argued that the increase in the labour force provides merely an indication, rather than exact measure, of the magnitude

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29 It should be added that during the 1960's the proportion of economically active females to total females has been found to be more or less constant in a large number of developing countries. (See Sadie, J.L.: "Demographic Aspects ....," op.cit., p. 33).

Table 3.4 The Estimated Increase in the Number of Female Workers in the Homelands - 1975-85

(,000)

| HOMELAND | THE NUMBER OF FEMALE WORKERS | | | Average Annual Increase | |
|---|---|---|---|---|---|
| | 1975 | 1980 | 1985 | 1975-80 | 1980-85 |
| Basotho-quaqua | 2 | 3 | 3 | .2 | - |
| Bophuthatswana | 91 | 105 | 121 | 2.8 | 3.2 |
| Gazankulu | 25 | 28 | 33 | .6 | 1.0 |
| Kwazulu | 287 | 331 | 382 | 8.8 | 10.2 |
| Lebova | 121 | 140 | 161 | 3.8 | 4.2 |
| Swazi | 13 | 15 | 17 | .4 | .4 |
| Venda | 23 | 27 | 31 | .8 | .8 |
| Xhosa-Ciskei | 63 | 72 | 84 | 1.8 | 2.4 |
| Xhosa-Transkei | 188 | 216 | 250 | 5.6 | 6.8 |
| TOTAL | 813 | 937 | 1,082 | 24.8 | 29.0 |

Source:

1. Department of Statistics: Population Census : Sample Tabulation ..... op.cit., p. 14.
2. Table 3.1 above.

of the problem of underdevelopment in the homelands; it gives an idea of the number of people who would, in the absence of economic development, be left without adequate livelihoods in future.

In Table 3.5 we bring together the information contained in Tables 3.3 and 3.4. It gives the estimated average annual increase in the total labour force of the homelands for the periods 1975-80 and 1980-85. It can be seen that the average annual increase in the labour force is estimated at about 89,000 individuals between 1975 and 1980, and 104,000 individuals between 1980 and 1985. Of more importance, however, is the great variation in the growth of the labour force which exists among the individual homelands. Whereas no less than 30 per cent of the increase in the total homeland labour force is likely to occur in Kwazulu, and 27 per cent in the Transkei, only an estimated .4 per cent of the increase will take place in Basotho-quaqua, 2 per cent in the Swazi-homeland and 4 per cent in the homeland of the Venda. It follows that very little will be gained from lumping the homelands together in attempting to identify and solve the development problem. What is called for is a spatially differentiated approach, according to which preference is given to those homelands in which the development problem is relatively sizeable.

Table 3.5 The Estimated Increase in the Total Labour Force of the Homelands 1975-85

(,000)

| HOMELAND | AVERAGE ANNUAL INCREASE 1975 - 80 | | | AVERAGE ANNUAL INCREASE 1980 - 85 | | |
|---|---|---|---|---|---|---|
| | MALES | FEMALES | TOTAL | MALES | FEMALES | TOTAL |
| Basotho-quaqua | .2 | .2 | .4 | .2 | - | .2 |
| Bophuthatswana | 6.6 | 2.8 | 9.4 | 7.6 | 3.2 | 10.8 |
| Gazankulu | 3.0 | .6 | 3.6 | 3.4 | 1.0 | 4.4 |
| Kwazulu | 18.4 | 8.8 | 27.2 | 21.4 | 10.2 | 31.6 |
| Lebowa | 10.0 | 3.8 | 13.8 | 11.4 | 4.2 | 15.6 |
| Swazi | 1.0 | .4 | 1.4 | 1.2 | .4 | 1.6 |
| Venda | 2.4 | .8 | 3.2 | 2.8 | .8 | 3.6 |
| Xhosa-Ciskei | 4.8 | 1.8 | 6.6 | 5.4 | 2.4 | 7.8 |
| Xhosa-Transkei | 18.2 | 5.6 | 23.8 | 21.2 | 6.8 | 28.0 |
| TOTAL | 64.6 | 24.8 | 89.4 | 74.6 | 29.0 | 103.6 |

Source:

1. Tables 3.1, 3.2, 3.3 and 3.4

## Chapter 4. Underemployment in the Agricultural Sector of the Homelands

### (i) Introduction

Most development plans aim only at absorbing all or most of the new entrants to the labour force arising from the growth of population over the period covered.[1] The existing number of unemployed and underemployed people is therefore left unchanged or increasing. In the same way, past attempts to estimate the size of the employment problem in the homelands relate only to future increases in the male labour force; existing unemployment and underemployment are either ignored or, at best, implicitly assumed to be non-existent.

Unemployment usually refers to people without work who are seeking work but unable to find it within a given time period; underemployment, on the other hand, refers to people who are forced to work part-time or unproductively by a shortage of land and capital relative to labour.[2] In the agricultural sector of many developing countries the excess supply of labour is often aggravated by a failure to adopt labour-intensive techniques of development. If, under such circumstances, the mobility of labour is restricted by law or traditional customs, or by a lack of employment opportunities in the non-agricultural sectors of the national economy, the resultant underutilisation of labour is generally referred to as underemployment, or a surplus of labour; unemployment may be regarded as an extreme

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1 See International Labour Office: Employment Objectives in Economic Development, Studies and Reports, New Series, No. 62, March 1969, pp. 36-37.

2 Ibid., Chapter 2. See also International Labour Office, Employment and Economic Growth, Studies & Reports, New Series, No 67, 1964, Chapter 1.

example of underemployment, and in the remainder of this chapter underemployment is assumed to include all cases of unemployment.

It is the purpose of this chapter to estimate the size and extent of underemployment in the agricultural sector of the homelands.[3] An attempt is made to test the validity of the widely made claim that the supply of land and capital in the homelands is limited relative to the supply of labour. This will be done by quantifying the degree of labour utilisation in homeland agriculture; an underutilisation of labour will indicate the existence of underemployment inasfar as the mobility of labour is limited by the severe restrictions placed on the migration of labour from the homelands to the rest of South Africa.[4] In the next section below reference is made to the analytical framework within which the analysis is undertaken. Thereafter, the findings and recommendations of a similar study by the Tomlinson Commission are discussed and evaluated in the hope that it would clarify some of the methods employed in our subsequent estimate of underemployment.

(ii) The Theoretical Framework

The literature distinguishes between two main types of underemployment, namely "Keynesian" and structural underemployment. The former, which was introduced by Joan Robinson in the 1930's, exists when workers are dismissed from their regular occupations

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3 Due to a lack of data on urban employment in the homelands, it is not possible to undertake a similar study of the relatively small non-agricultural sector.

4 Some of these restrictions are discussed in South African Institute of Race Relations: A Survey of Race Relations in South Africa 1971, Natal Witness (Pty) Ltd., 1972, pp. 155-118.

by a decline in the aggregate demand and forced to adopt less productive jobs of a temporary nature.[5] Although "Keynesian" underemployment is mainly used within the context of industrially advanced countries, it has been applied to underdeveloped areas whose income is largely dependent upon the exportation of primary goods to industrial areas.[6] The "structural" version of underemployment, with which we shall be mainly concerned in this section, refers to "... the vast and long-term underutilisation of human resources in which more labourers are tied up permanently and structurally in various lines of production than are necessary for the output of the product."[7] Whereas "Keynesian" underemployment is caused by a deficiency of demand and can be eliminated by public policies of income generation, structural underemployment is caused by a potentially permanent abundance of labour relative to land and capital, a state of affairs which is perpetuated by the inability of labour to move to or find employment in regions or sectors experiencing high rates of expansion.

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5 See Robinson, Joan: "Disguised Unemployment", Economic Journal, Vol. 46, June 1936, pp. 225-237; and Bishop, C.E.: "Economic Aspects of Changes in Farm Labour Force", in Iowa State Univ's Centre for Agricultural and Economic Adjustment: "Labour Mobility and Population in Agriculture", Iowa State Univ. Press, 1961, pp. 36-41.

6 See Wellisz, S.: "Dual Economies, Disguised Unemployment and the Unlimited Supply of Labor", Economica, Vol. 35, Feb. 1968, pp. 25-45.

7 Myrdal, G.: Asian Drama: An Inquiry into the Poverty of Nations, Vol. III, London, 1968, p. 2,044.

In the traditional theory[8] underemployment is usually explained in terms of a hypothetical withdrawal or departure of labour from the sector or region in which it is underemployed; it is defined as a situation in which, given static conditions of production, a withdrawal of a certain quantity of the factor labour to other uses will not diminish the total output of the sector or region from which it is withdrawn - the case of a zero (or negative) marginal productivity of labour. The theory is mainly concerned with the question of why people should want to work up to the point where no returns are forthcoming. One school of thought attributes the phenomenon of a zero marginal productivity to the fact that, in peasant economies, employment is guided by a desire to maximise the aggregate output (i.e. zero marginal productivity) in the hope that it would maximise consumption per head of population.[9] This argument is usually extended to allow for the existence of a positive marginal product

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8 By this is meant the general theory which has developed around the works of men like Rosenstein-Rodan, Leibenstein, Lewis, Viner and Nurske, the references to which can be found in surveys of the literature in Kao, C., Anschel, K and Eicher, C.K.: "Disguised Unemployment in Agriculture: A Survey" in Eicher, C.K. and Witt, L.W. (eds.): Agriculture and Economic Development, New York, 1964 pp. 130-131 and 135-141; and Wellisz, S., op.cit., pp. 44-51.

9 See for instance Georgesan-Roegen, N.: "Economic Theory and Agrarian Economics" Oxford Economic Papers, Vol. 12, Feb., 1963, pp. 1-40; and Nurske, R.: Problems of Capital Formation in Underdeveloped Countries, Oxford University Press, N.J. 1953.

of labour; it is argued, for example, that the total product is equally divided between all workers regardless of contribution, whence it follows that the traditional wage is directly related to the average product, which is greater than the marginal productivity of labour.[10]

This latter reasoning, which is also the most commonly used explanation for the existence of underemployment, implies that the average product (and welfare) of the remainder would not be reduced by a withdrawal of men at the margin of production, so long as the average product exceeds or is equal to the marginal productivity of labour. It is further assumed, by implication at least, that the act of withdrawal is perfectly compatible with unchanged conditions of production. Most proponents of the theory, however, allow for "small changes in the organization of labour" or "relatively simple adaptations of methods" in the static activities of the remaining labour force.[11] This concession is presumably made in recognition of the fact that labour units may not be completely divisible.

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10 See Lewis, W.A.: "Economic Development with Unlimited Supplies of Labour" Manchester School of Economic and Social Studies, 1954, pp. 139-192; Wonnacott, P.: "Disguised and Overt Unemployment in Underdeveloped Economies," Quarterly Journal of Economics, Vol. 76, May, 1962, p. 289; and Chayanov, A.V.: "Organisation of Peasant Agriculture" as translated by Smith, R.E.F. in Thorner, D., Kerblay B. and Smith, R.E.F. (eds.): A.V. Chayanov on the Theory of Peasant Economy, A.E. Translation Series, R.D. Irwin Inc., 1966.

11 See for example Rosenstein-Rodan, P.N.: "Disguised Unemployment and Underemployment in Agriculture," Monthly Bulletin of Agricultural Economics and Statistics, Vol. 6, 1957, p. 4; and Nurske, R., op.cit., p. 33.

If, however, underemployment (in the forms of part-time work and unproductiveness) happens to occur on a large scale well within the margin of production, and/or the hypothetical departure of labour from the land involves a sizeable number of people, it seems hardly apt to refer to the remainder's efforts to prevent (average) output from falling as "small changes in the organisation of work."[12] The marginal change in production may, for instance, consist of an extra hour of work put in by someone already working long hours and productively. The withdrawal of such a "marginal worker" would cause a substantial reduction in output which might only be counterbalanced by changes in the institutional framework, stock of capital, technology and other ceteris paribus-factors. The existence of non-divisible units of labour, therefore, requires that either the so-called act of withdrawal be assumed to be selective and concentrated on the least productive workers, or that the assumption of unchanged conditions of production be relaxed.

Accordingly, under static conditions of production the size of underemployment is directly related to both the variation in individual productivity, rather than the marginal productivity of labour, as well as the selectivity of the hypothetical act of withdrawal. Under dynamic conditions, however, the act of withdrawal need not necessarily be selective since any withdrawal induced reduction in the product of the remainder could be offset by simultaneous or post-withdrawal increases in labour productivity; in a dynamic world, labour productivity may be raised by the introduction of new techniques of production.

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12 See in this respect Myrdal, G., op.cit., p. 2040.

The phenomenon of underemployment has recently been related to the welfare behaviour of both the withdrawn and the remainder, implying that any post-withdrawal change in occupation and productivity depends upon the peoples' net utility from consumption and work.[13] This approach enables one, first of all, to relax some of the more rigid assumptions of the traditional theory, such as the one which prescribes equilibrium standards of "full-time work" and "maximum productivity" to a "homogeneous" labour force; whether or not the average product falls, remains unchanged or increases after the act of withdrawal, entirely depend on the wishes and needs of the remaining labour force. SEcondly, the "welfare approach" to underemployment requires that people should leave the underemployed sector and take up alternative employment out of their own free will. There is, however, no a priori reason why anybody should wish to leave the underemployed sector or region; people might prefer to have a productive job in the underemployed sector, rather than a similar job in any other sector. And in this case the solution to the problem of underemployment clearly lies in the provision of employment (and other) opportunities in the underemployed sector or region.

The introduction of welfare economics into the underemployment model makes the existence of underemployment dependent upon almost any condition of production - a rather unmanageable state

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13 See Sen, A.: "Peasants and Dualism with or without Surplus Labor," Journal of Political Economy, Vol. 49, 1966, pp. 425-448; and Wellisz, S., op.cit., pp. 25-51.

of affairs. In the real world, however, the range of conditions may be narrowed down considerably by the introduction of exogenous or policy-determined norms of production. Thus it may be that the policy objective of the day includes the attainment of some or other desired level of production, for example a "self-sufficiency" or maximum level of output. Underemployment accordingly exists whenever the desired level exceeds the actual level of production; labour is underemployed in the sense that it is not sufficiently utilised. Conversely, underemployment is non-existent when the desired level equals the actual level of production; and it follows that any person who appears to work part-time or unproductively must be assumed to do so voluntarily.

The latter is also the interpretation of underemployment used in our subsequent analysis. And we may conclude that, for the purposes of the present study, underemployment is defined in terms of the difference between the actual degree of labour utilisation and that degree which is required to achieve a desired level of output; in short, it represents the difference between the desired and actual degrees of labour utilisation.

(iii) The Recommendations of the Tomlinson Commission

The only major inquiry into the existence of surplus labour in the homelands was the one conducted by the Tomlinson Commission in 1954.[14] The Commission's modus operandi was to divide the homeland population into two broad categories, one of which were

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14 Union of South Africa: 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, Government Printer, Chapter 28.

to be wholly engaged in agriculture, and the other of which were to be dependent upon non-agricultural employment. The full-time farming population was determined by dividing each homogeneous agricultural region into "economic farming units," each one large enough to provide a permanent means of living to at least one Black family. Each farming unit was to consist of a residential plot, privately owned arable land and common grazing grounds, which together were estimated to yield a minimum real income of R120 per annum. The latter income was regarded as the minimum amount necessary to attract a family to full-time farming. The estimated average size of the farming unit was 52.5 morgen which varied considerably between the pastural farming regions of the northwestern homelands, and the predominantly mixed farming regions of the rest.

On the above basis, the Commission found that the agricultural sector of the homelands was only able to carry about half the then existing homeland population; it consequently devoted the major part of its report to the task of providing alternative employment to the so-called non-farming section of the homeland population.

In retrospect, there are at least three aspects of the Commission's study which merits scrutiny. Firstly, the minimum average income considered necessary to attract a Black family to full-time farming was determined by a survey study of the average annual income of 900 Black farmers.[15] Since the latter consisted of the total income from farming, plus remittances sent by migrants

15 It should be added that the Commission, in determining the size of the family holding, gave due consideration to the minimum food requirements of the average Black family.

to the tribal farms, it follows that any increase in the amount of remittances, brought about by wage increases in the non-homeland areas of the country, would lead to an increase in the minimum income needed to attract a Black family to full-time farming[16]; this would necessitate an increase in the land per family which would, in turn, imply periodic reallocations of the arable and grazing land alloted to full-time farmers.[17]

The validity of this argument depends upon the extent to which homeland Blacks are sensitive to alternative rates of return for their labour. This is partly reflected by the fact that approximately 670,000 Black males presently migrate between the homelands and the rest of South Africa.[18] Assuming the average Black family to consist of 6 persons[19], it seems reasonable to assume that more than half the present (de jure) homeland population is affected by migration, and hence by alternative rates of labour return.[20] In practice, however, any such sensitivity to differential wage rates is not likely to enter the family's decision to farm in the homelands on a relatively full-time basis. It is even debateable whether such a decision actually exists. This is because of the above-mentioned restric-

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16 See Rutman, G.L.: "The Transkei: An Experiment in Economic Separation," South African Journal of Economics, Vol. 36, No. 1, March 1965, p. 29.

17 Ibid., pp. 29 and 30.

18 See Table 3.1 above.

19 Tomlinson Commission Report, op.cit., p. 54.

20 For similar findings see Mayer, P.: Townsmen and Tribesmen, Oxford University Press, 1961, pp. 136-147; and Uibiren, S.: "Higher Productivity and Higher Wages of Native Labour in South Africa," South African Journal of Economics, Vol. 29, 1961, pp. 35-41.

tions placed on the permanent migration of homeland Blacks to the non-homeland parts of South Africa; homeland Blacks are simply not allowed to take up alternative employment in non-homeland South Africa on a permanent basis.

Secondly, the Commission employed an essentially static approach to the problem of underemployment by basing its estimates of the size of the farm unit on the then existing methods and levels of production. It therefore failed to consider the effect of increases in labour productivity on the size of the farm unit necessary to attract a Black family to full-time farming. The latter would certainly have been smaller than the Commission's corresponding estimates if it had been based on some policy-determined standard of production, or the full agricultural potential of the regions concerned.[21] In all fairness, however, the Commission must be credited for not expecting too much too soon from the proposed agricultural development policy.[22] It is for instance a fact that, although

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21 For a discussion of the relationship between the size of holdings and technology see Bachman, K.G. and Cristensen, R.P.: "The Economics of Farm Size," in Southworth, H.M. and Johnston, B.F. (eds.): Agricultural Development and Economic Growth, Cornell Univ. Press, 1967, pp. 234-257. See also Brand, S.S.: "Agriculture and Economic Development in Southern Africa, Jan Smuts House, March 1972, pp. 13-14.

22 But it did show faith in the private sector and Government's ability to provide non-agricultural employment to about half of the then existing homeland population.

more than half of the total surface of the homelands has been planted during the past two decades, the average grain yield per morgen has remained more or less unchanged at about 2 to 3 bags (of 200 lb. each) during the same time period.[23]

Finally, the arbitrary division of the homeland population into full-time farmers and non-farmers is tantamount to a withdrawal or departure of labour from the agricultural sector of the homelands. This division of the Black population is therefore subject to the same criticism brought against the "withdrawal thesis" propounded in the traditional theory of underemployment.[24] In particular, the Commission should have considered the possibility of accommodating part of the so-called non-farming population in the agricultural sector by the introduction of capital - and labour-intensive techniques of production. It is quite possible that such a strategy would have been less costly than the alternative one in which a significant proportion of the agricultural population were to be drawn into a proposed industrial sector.[25]

(iv) The Estimation Procedure

In section (ii) we defined underemployment in terms of the difference between the desired and actual degrees of labour utilization; this difference is directly related to the difference between the desired and actual levels of output. So defined, the

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23 See p. 27 above.

24 See p. 75 above.

25 This point is further discussed in Chapter 5.

phenomenon of underemployment is particularly relevant to the agricultural development policy in the homelands. Agricultural land is, for example, divided into units or holdings, each of which are, under existing techniques of production, sufficiently large to provide for the needs of a Black farming family;[26] the aim is therefore to achieve a volume of output that would meet the demands of the family concerned.[27] This is assumed to be the desired level of output. It is further assumed that this aim will be achieved if each agricultural holding were, on the average, occupied by one Black family. In this case the desired level of output would equal the actual one, so that underemployment would, by definition, be non-existent. On the other hand, if it is found that each agricultural holding is, on the average, occupied by more than one family, it follows that the desired level exceeds the actual level of output; and in this case the size of underemployment depends upon the extent to which the number of families exceeds the number of available agricultural holdings.

Our estimation procedure, which is explained in detail below, consists of 4 general steps, namely:

(1) to determine the average size of presently completed holdings for each homeland;

(2) to estimate the total potential number of holdings in each homeland on the basis of the results obtained in (1);

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26 This is done for all types of farming, e.g. communal farming or a combination of communal and private farming. In all cases the subdivision is done to determine the carrying capacity of the land.

27 See Rhoodie, N.J. et.al. (eds.): Homelands - The Role of the Corporations, Chris van Rensburg Publications, 1974, p. 68; and Smit, P.: Die Ontwikkeling van die Bantoetuislande - Probleme en Vooruitsigte, publication of Africa Institute, No. 21, July 1969, pp. 14-15.

(3) to estimate the number of families in homeland agriculture; and

(4) to estimate the size of underemployment by comparing the number of agricultural families with the total potential number of farm holdings in the homelands.

The first step was to determine for each homeland the average size of completed holdings in regions of both irrigation and non-irrigation farming. In Table 4.1 this is shown for all homelands excepting the Transkei and Kwazulu. The calculations in Table 4.1 refer to 1969 which is the last year for which data on farm holdings were available. Since then the agricultural services of the Department of Bantu Administration and Development have been delegated to the various homeland governments, none of which have managed to produce subsequent data on the number and size of planned holdings in their respective homelands. It should be mentioned, however, that the total area planned by 1969 comprised as much as 83 per cent of the total area planned up to 1974.[28] This, together with the fact that the Department of Bantu Administration and Development continues to advise and supervise the departments of agriculture of the various homelands, would seem to indicate that the average size of farm holdings may not be much different today from what it was in 1969.

Due to a lack of data on the division of agricultural land in the Transkei and Kwazulu, recourse had to be taken in these cases to the corresponding estimates of the Tomlinson Commission.

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28 South African Institute of Race Relations, 1974, op.cit., p. 206.

Table 4.1 The Estimated Average Size of Completed Farm Holdings in the Homelands

| | Total Extent of Area Planned (morgen) | IRRIGATION FARMING | | | MIXED AND PASTURAL FARMING | | |
|---|---|---|---|---|---|---|---|
| | | Extent of Area Planned (morgen) | Number of Planned holdings | Average Size of Planned holding (morgen) | Extent of Area Planned (morgen) | Number of Planned holdings | Average size of Planned holding (morgen) |
| Basotho-qua qua | 55,324 | | | | 55,324 | 2,129 | 25.99 |
| Bophuthatswana | 1,753,638 | 4,098 | 1,685 | 2.43 | 1,749,540 | 8,529 | 205.12 |
| Gazankulu | 762,974 | 901 | 991 | .91 | 762,073 | 4,465 | 170.66 |
| Lebowa | 1,426,386 | 3,561 | 3,359 | 1.06 | 1,422,825 | 20,017 | 71.08 |
| Swazi | 240,668 | 822 | 428 | 1.92 | 239,846 | 4,447 | 53.93 |
| Venda | 471,289 | 3,195 | 1,925 | 1.66 | 468,094 | 3,336 | 140.30 |
| Xhosa-Ciskei | 759,037 | 591 | 372 | 1.59 | 758,446 | 17,671 | 42.92 |

Source: Adapted from Republic of South Africa, Dept. of Bantu Administration and Development, Section Bantu Agriculture: Annual Report 1969, Government Printer, pp. 2-3 and 67-71.

Table 4.2 The Estimated Average Size of Farm Holdings in the Transkei and Kwazulu

TRANSKEI

| Homogeneous Agricultural Region | Estimated extent of Subregion (morgen) | Proposed extent of land per family[1] (morgen) | Proposed number of farm Holdings |
|---|---|---|---|
| $E_4$ | 611,432 | 35 + 1 | 16,984 |
| $E_5$ | 273,019 | 48 + 1 | 5,572 |
| $E_6$ | 2,096,371 | 25 + 1 | 80,630 |
| $F_3$ | 645,214 | 56 + 1 | 11,319 |
| $H_3$ | 477,100 | 31 + 1 | 14,909 |
| TOTAL-TRANSKEI | 4,103,136 | 32 | 129,414 |

KWAZULU

| Homogeneous Agricultural Region | Estimated extent of Subregion (morgen) | Proposed extent of land per family (morgen) | Proposed number of farm Holdings |
|---|---|---|---|
| $D_2$ | 100,000 | 63 + 1 | 1,562 |
| $E_1$ | 477,374 | 48 + 1 | 9,742 |
| $E_2$ | 160,215 | 35 + 1 | 4,450 |
| $E_3$ | 212,530 | 28 + 1 | 7,329 |
| $F_1$ | 241,957 | 96 + 1 | 2,494 |
| $F_2$ | 1,176,627 | 80 + 1 | 14,526 |
| $F_3$ | 200,000 | 56 + 1 | 3,509 |
| $H_1$ | 149,379 | 192 + 1 | 774 |
| $H_2$ | 237,262 | 28 + 1 | 8,181[2] |
| | 52,105 | 4 | 12,500[3] |
| TOTAL-KWAZ-ULU | 3,007,449 | 46 | 65,067 |

1 The one morgen is the residential plot

2 Mixed Farming

3 Sugar-cane growing

Source: Tomlinson Commission Report, op.cit., p. 115 and MAP 54.

This proved to be no easy task as the Commission's estimates referred to the homogeneous agricultural regions of the Republic, rather than to the individual homelands.[29] It was, however, possible to approximate the Commission's recommended average size of holdings for both the Transkei and KwaZulu by, firstly, subdividing each homeland into its relevant shares of the standard agricultural regions. Thereafter the approximated sizes of these latter agricultural subregions were divided by the corresponding average size of holdings recommended by the Tomlinson Commission. The results are shown in Table 4.2. From Tables 4.1 and 4.2 it can be seen that the average size of completed holdings in the mixed and pastural farming regions varies between 205 morgen in the predominantly pastural farming regions of Bophuthatswana and 26 morgen in the predominantly mixed farming regions of Basotho-quaqua.

The second step consisted of estimating the total potential number of farm holdings in each of the homelands. For this it was necessary, first of all, to estimate the total amount of available agricultural land in each of the homelands. The total extent of each homeland was accordingly reduced by an estimated number of morgen which allows for both existing as well as proposed townships. At present about 90 towns are either completely planned or in the process of being planned in the homelands.[30] It is anticipated that a further 50 townships will

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29 Tomlinson Commission Report, op.cit., p. 155.

30 Malan, T. and Hatting, P.S. (eds.): Swart Tuislande in Suid-Afrika, Africa Institute, 1975, p. 22.

be developed in the forseeable future. The average number of houses per township is estimated at approximately 2,000.[31] Furthermore, in the completed townships the average amount of land per residential house, after allowing for such services as streets, schools, clinics and shops, appears to be about 1 morgen.[32] Accordingly, if averages of 2,000 houses and 2,000 morgen per township are accepted, the total extent of existing and proposed townships in the homelands comes to about 300,000 morgen. The latter amount is allowed for in the estimates of available agricultural land presented in column 3 of Table 4.3.

Columns 4-13 of table 4.3 contain estimates of the total potential number of farm holdings in the homelands. These estimates were arrived at by dividing each homeland's total extent of forestry, irrigable land and mixed and pastural farming regions by the corresponding estimated average size of completed holdings. From column 13 it appears that the total potential number of farm holdings is estimated at about 406,000 for the homelands as a whole. This amount is made up of 313,000 holdings in the mixed and pastural farming regions, 46,000 in irrigation farming regions and 47,000 in regions suitable for forestry. The estimated average size of all types of holdings in the homelands is equal to about 44 morgen, which is somewhat smaller than the Tomlinson Commission's recommended size of 53 morgen.[33]

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31 Ibid.

32 Tomlinson Commission Report, op.cit., p. 148. See also Kingsley, S.F.: "Dorpstigting in die Tuislands," in Yearbook of SABRA, Nr. 6, 1970, p. 36.

33 Tomlinson Commission Report, op.cit., p. 114.

Table 4.3 The Estimated Size and Extent of Underemployment in the Agricultural Sector of the Homelands

| | RURAL POPULATION | | TOTAL | FORESTRY | | | IRRIGATION FARMING | | | MIXED AND PASTURAL FARMING | | | TOTAL | UNDEREMPLOYMENT | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | TOTAL (,000) | Estimated number of families (,000) | Extent of Agricultural land (,000 morgen) | Total potential extent of Land (,000) | Average number of morgen per labourer | Potential number of holdings (,000 morgen) | Total potential extent of land (,000 morgen) | Average size of planned holding (morgen) | Potential number of holdings (,000 morgen) | Total potential extent of land (,000 morgen) | Average size of planned holding (morgen) | Potential number of holdings (,000 morgen) | Potential Number of holdings (,000 morgen) | Excess of rural families over Total number of holdings (,000) | Column 14 as percentage of Column 2 |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13=6+9+12 | 14=2-13 | 15 |
| Basotho-quaqua | 26 | 4.3 | 54.5 | .9 | 10 | .1 | | | | 53.6 | 26 | 2.1 | 2.2 | 2.1 | 49 |
| Bophuthatswana | 776 | 129.3 | 4,436.1 | 1.9 | 5 | .4 | 9.3 | 2.4 | 3.9 | 4,425.0 | 205 | 21.6 | 25.9 | 103.4 | 80 |
| Gazankulu | 310 | 51.6 | 782.9 | .1 | 5 | .0 | 4.2 | .9 | 4.7 | 778.6 | 171 | 4.6 | 9.3 | 42.3 | 82 |
| Kwazulu | 2,030 | 338.3 | 3,587.3 | 177.0 | 10 | 17.7 | 6.4 | 1.1 | 5.8 | 3,403.9 | 45 | 75.6 | 99.1 | 239.2 | 71 |
| Lebowa | 1,132 | 188.6 | 2,525.9 | 18.0 | 5 | 3.6 | 14.6 | 1.1 | 13.3 | 2,494.3 | 71 | 35.1 | 52.0 | 136.6 | 72 |
| Swazi | 122 | 20.3 | 232.6 | 1.7 | 5 | .3 | 2.7 | 1.9 | 1.4 | 228.2 | 54 | 4.2 | 5.9 | 14.4 | 71 |
| Venda | 294 | 49.0 | 734.0 | 6.6 | 5 | 1.3 | 8.3 | 1.7 | 4.9 | 719.1 | 140 | 5.1 | 11.3 | 37.7 | 77 |
| Xhosa-Ciskei | 461 | 76.8 | 1,061.4 | 5.9 | 10 | .6 | 2.8 | 1.6 | 1.8 | 1,052.6 | 43 | 24.5 | 26.9 | 49.9 | 65 |
| Xhosa-Transkei | 1,916 | 319.3 | 4,459.5 | 233.9 | 10 | 23.4 | 15.2 | 1.5 | 10.1 | 4,210.4 | 30 | 140.3 | 173.8 | 145.5 | 46 |
| TOTAL | 7,067 | 1,177.5 | 17,875.2 | 446.0 | 9.4 | 47.4 | 63.5 | 1.4 | 45.9 | 17,365.7 | 55.5 | 313.1 | 406.4 | 771.1 | 65 |

Source: 1 Tables 4.1 and 4.2

2 Department of Statistics, op.cit., pp. 14-16.

3 Department of Information: Unspecified Pamphlets, Government Printer.

4 Malan, T and Hatting, P.S. (eds.), op.cit., Chapters 3 and 5.

5 Pepler, L.A.: "Economic Aspects of Separate Development in the Bantu Homelands", paper read at Annual Meeting of South African Institute of Race Relations, January 1970, p. 15.

6 Weidemann, J.J.S. and Smith, D.J.G.: "Ekonomiese Beplanning van Boerdery-eenhede in sekere Suid-Afrikaanse Bantoegebiede", Agrekon, Vol. 9 no. 1, January 1970, pp. 35-50.

These estimates assume that the proportion of available agricultural land not yet planned (approximately 35 per cent), will in future be planned in much the same way as the proportion already planned. It is therefore assumed that the variation in the type and quality of land is the same for both planned and unplanned regions. While the latter assumption was largely necessitated by a lack of data on the porposed planning of unplanned agricultural land in the homelands, available data do indicate that the proportion of arable to grazing land of unplanned regions is more or less equal to that of planned regions.[34]

The third step consisted of estimating the number of families in the rural areas of the homelands. Judging by the respective sex ratio's of the urban and rural populations of the homelands,[35] it would seem that almost all the temporary migrants (temporary absentees) descend from the rural areas of the homelands. The total rural population of the homelands (column 1 of Table 4.3) therefore includes the total estimated number of temporary migrants. The average Black family is finally assumed to consist of 6 persons.[36]

The fourth and final step attempts to estimate the size of underemployment by comparing the number of rural families (column 2 of Table 4.3) with the total potential number of farm holdings in the homelands (column 13). This is shown in columns 14 and 15 where it is estimated that about 65 per cent of the total agricultural labour force is underemployed; this

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34 See Department of Bantu Administration and Development, Section Bantu Agriculture, op.cit., pp. 67-71.

35 Department of Statistics: Population Census: Sample Tabulation of Bantu - Age, Occupation, Industry, School Standard, Birthplace, Report No. 02-02-02, Government Printer, 1973, pp. 14-16.

36 See Tomlinson Commission Report, op.cit., p. 54.

indicates the extent to which the desired level of output exceeds the actual one. In other words, it appears that, on the basis of the present policy of agricultural development, the agricultural sector is only capable of fully absorbing about 406,000 families or 35 per cent of the total rural population of the homelands. As far as the individual homelands are concerned, the corresponding percentage is smallest in Gazankulu (18 per cent) followed closely by Bophuthatswana (20 per cent) and the homeland of the Venda (23 per cent); it is greatest in the Transkei (54 per cent), Basotho-quaqua (51 per cent) and the Ciskei (35 per cent).

(v) Conclusion

Our main conclusion is that the agricultural development policy has largely failed to fully utilise the agricultural labour force of the homelands. More specifically, although the presently completed farm holdings are smaller in size than those proposed by the Tomlinson Commission, the above estimate of underemployment exceeds that of the Commission's by a considerable margin. The reason for this difference must be attributed to the natural growth of population, the hitherto relatively modest development effort, the increasing restrictions on the mobility of labour and, most important, the policy of human resettlement. The significance of the latter is indicated by the large number of people who have been resettled from the rest of South Africa to the homelands[37]; and there can be little doubt that the resettlement of people has undermined what efforts there were to raise output per unit

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37 See p. 27 above.

of land in the agricultural sector.

In the previous chapter it was estimated that the total labour force of the homelands will increase by some 100,000 individuals each year between 1975 and 1985. To this one might add the estimated number of about 770,000 underemployed rural families, or 65 per cent of the rural population, so as to obtain some measure of the size of the employment problem in the homelands. It does not follow from this, however, that new employment opportunities will have to be made available to each and every new entrant and underemployed family in the homelands. It is quite possible, for example, that many rural homelanders are employed in the informal sector where they participate in such activities as hawking, beer brewing, tailoring and building.[38] Similarly, a great many homelanders migrate between the homelands and the rest of South Africa, and remit part of their earnings to families who remain behind in the homelands. Substantial increases in these remittances may well be sufficient to provide for the needs of the families concerned. It is therefore likely that some rural families may prefer not to utilise the full potential of the land, in view of the existence of such alternative sources of income as the informal sector and temporary migration.

Furthermore, people who actually work on the land, whether on a part-time or full-time basis, may be unable to realize the full agricultural potential because of a shortage of production factors other than labour. In these cases the solution to the problem is not likely to lie in the provision of

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38 The informal sector is further discussed in Chapter 5 below.

new employment opportunities in the non-agricultural sectors. What is needed is an active programme for the improvement of existing jobs in the agricultural sector, e.g. the use of seeds, fertilizer and pesticides and the provision of loan capital.[39] Finally, we have throughout stressed that employment, or the lack thereof, is merely one part of the general problem of underdevelopment. The provision of adequate employment opportunities will not by itself satisfy the widely divergent demands of the people. There is also a need for better health and education and, more generally, for an improvement in the quality of life. "The basic objectives of man, and therefore, of all societies, whether developing or developed, can be summarised in one phrase : to improve the quality of life."[40]

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39 See section (v) of Chapter 5 below.

40 Sebe, L.L., Chief Minister of the Ciskei: "The Potential, Problems and Priorities of the Ciskei," AIESEC Journal, Rhodes University, 1975, p. 33.

## SECTION III ECONOMIC STRATEGY IN THE HOMELANDS

### INTRODUCTION

(i) A Note on the Causes of Underdevelopment

It is a recognised fact that in most developing countries resources are being allocated in a way which favours a privileged few at the expense of the masses. "It would be unwise to ignore the gap that exists today de facto between a subsistence farmer and a kulak, or between a self-employed artisan or small shopkeeper and a capitalist businessman, or between an unskilled wage labourer and a well-paid skilled worker in respect of their income position, way of life and thinking;"[1] what is more, these differences tend to be larger in developing countries than in the economically advanced countries of the west.[2] The most striking inequalities are those in respect of the distribution of political power, land, capital, income, jobs, education and other physical and

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1 Szentes, T.: The Political Economy of Underdevelopment, Akadémiai Kiadó, Budapest, 1971, p. 269.

2 Ibid., p. 267. See also Paukert, F.: "Income Distribution at Different Levels of Development: A Survey of Evidence", International Labour Review, Vol. 108, No. 2, August 1973, pp. 97-122.

social services.[3] Lipton puts it succinctly: " .... the problem of poverty is a problem of the distribution of income, jobs and land."[4]

These differences among people of the same country suggest that the cause of the development problem lies in the distributional effects of past and present development strategies. But in exactly what way do these inequalities arise? Some believe that the causes of inequality are so widely divergent that the only proper way of analysing them is to do so within a multi-disciplinary context[5]; indeed, few would deny that the causes are not only economic, but also political, sociological, anthropological and psychological. In this respect some writers point to the existence of certain social and political factors which might impede any attempt to

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3 See Chenery, H., Ahluwalia, M.S. et.al.: Redistribution with Growth, World Bank and Institute of Development Studies, Oxford University Press, 1974, Chapters 1 and 3; Healy, D.T.: "Development Policy: New Thinking about an Interpretation", Journal of Economic Literature, Vol. 10, 1972, pp. 766-770; and Streeten, P.: "How Poor are Poor Countries?" in Seers, D. and Joy, L. (eds.): Development in a Divided World, Penguin 1971, pp. 67-83.

4 Lipton, M.: "The International Diffusion of Technology", in Seers, D. and Joy, L. (eds.), op.cit., p. 62.

5 See Myrdal, G.: Economic Theory and Underdeveloped Regions, MacMillan 1957 and Myint, H.: "Economic Theory and Underdeveloped Countries", Journal of Political Economy, Vol. 78, No. 5, October 1965, pp. 477-491.

redistribute income on a comprehensive scale.[6] This may also be true of the homelands. It is possible that the rulers of the homelands, many of whom own property and other means of production, may be quite insensitive to any radical redistribution of income inasfar as it might threaten their own interests, as well as the interests of their supporters. But such possibilities are not easily verified, and it seems more realistic to accept them as a possible constraint on the economic development of the homelands. There is the further problem that the economist may not be in a position to contribute meaningfully to an analysis of the social and political variables of the development problem. It is for these reasons that the social and political dimensions of the problem will be largely ignored in the subsequent analysis of development strategy in the homelands.

Given these provisions, it seems worthwhile to concentrate on the economics of the development problem in our brief discussion of the causes of underdevelopment. The problems of unemployment and insufficient incomes generally arise from the particular structural changes in the economies of developing countries. In most cases these changes are quite inconsistent with the corresponding endowment of resources; more specifically, in most developing countries capital is used relatively

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6 Seers, D.: "A Step Towards a Political Economy of Development", in Jolly, R., De Kadt, E. et.al. (eds.): Third World Employment, Penguin, 1973, pp. 402-412.

extensively and labour relatively sparsely, notwithstanding the fact that capital is the scarce and labour the abundant factor of production. This may be explained in terms of two basic demand relationships, namely the foreign demand and the domestically rich's demand for the goods and services produced in developing countries.

The foreign demand for domestically produced goods is usually met by firms which are able to import capital and technology cheaply from the economically advanced countries. The inevitable result is that these firms tend to use relatively capital- and skill-intensive techniques of production in conditions where unskilled workers are in plentiful supply. This point is widely recognised: "One thing we can say with some confidence is that what is harmful is not so much the transfer of ideas or techniques or tastes as their naive transfer without adaptation in circumstances for which they were never intended."[7] The effect of such transfers is to raise the shares of capital and skilled labour in the national income of developing countries. The latter share rises because of the increased demand for skilled labour which, in most developing countries, is in relatively short supply. And the resultant rise in the cost of labour leads to a further increase in the use of labour-saving production techniques, so that, although production increases, employment rises less than it would have risen under different circumstances.[8]

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7 Seers, D.: "Rich Countries and Poor", in Seers, D and Joy, L (eds.), op.cit., p. 31

8 See Jolly, R.: "Manpower and Education", in Seers, D and Joy, L. (eds.), op.cit., pp. 222-223.

The second demand relationship follows directly from the first one. The increase in the wages of skilled and other wage labourers usually leads to an increase in the aggregate demand for durable and semi-durable goods and services; the list of such goods is endless and includes electrical equipment, radiograms, sewing machines, cosmetics and life and other insurance. These goods are either imported or locally produced by means of capital-intensive techniques of production; and in both cases the effect is to slow down the rate of growth of employment. An increase in the imports of durable goods, for example, causes a fall in the supply of foreign exchange which, in turn, limits the means to import investment goods for the production of labour-intensive goods like clothing, footwear and furniture. Jolly sums up the total effect as follows: "Slow growth in employment is in large part an example of the costs to the low-income countries of being dependent on the technologies of the rich."[9]

It is possible that in many countries the pattern of domestic demand has become quite independent from the foreign demand for goods and services.[10] But the general conclusion seems to be clear : past strategies have caused a relative decline in the type of demand which is needed to induce the development of industries which use production factors in accordance with the resource endowment of the countries in question. How do the

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9 Op.cit., p. 225.

10 See Szentes, T., op.cit., Chapter III.

homelands fit into this picture? There is little doubt that the economic development of South Africa has followed a pattern similar to the one outlined above. The role of western or western-orientated ideas, tastes and techniques in the development of South Africa is a well-known fact. And so, too, are the inequalities in South African society. The homelands are merely one of the inevitable consequences of this process of development. It may well be argued, for example, that the homeland policy has generally arisen from a realization of the basic untenability of a system which is based on inequalities between individuals, regions and nations; and this is indeed one of the basic premises on which the present study is based. What remains to be done, however, is to analyse the strategy employed to close the economic gap between the homelands and the rest of South Africa.

(ii) Development Strategy and the Homelands

The solution to the development problem obviously lies in the elimination of the causes thereof; that is to say, the solution depends on the extent to which available resources can be allocated in accordance with the resource endowment of the country concerned. As far as the role of the public sector is concerned, this calls for a distributional programme of public expenditure, according to which public services are made available to the poor on an increasing scale. The need to provide more health and educational services to the poor follows from the fact that any policy which provides more jobs to the poor, depends for its success on the availability of a relatively

healthy and educated labour force.[11] Equally important is the need to provide physical infrastructural services to industries which use relatively labour-intensive techniques of production. In Chapter 5 below an attempt is made to determine the composition and direction of public expenditure in the homelands. Some information is given on the distribution of public expenditure between regions and sectors in which different capital-labour ratio's are used in the production of goods and services. Due to lack of data, however, it is not possible to determine the distribution of any specific public service between different income-groups within the homelands.

In most developing countries there is clearly a need to change the structure of consumer demand so as to make it more consistent with the corresponding endowment of resources. In the absence of an efficient fiscal system,[12] this may be done in two general ways, namely:

(1) the promotion of labour-intensive techniques among capital-intensive industries by means of such indirect measures as labour subsidies, and

(2) the direct promotion of industries which use labour-intensive production techniques.

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11 See Chenery, H. and Ahluwalia, M.S., op.cit., pp. 81-83. It is also necessary, of course, that the educational programme should be directed towards the social and economic needs of the community in question. (See Jolly, R., op.cit.)

12 See Stewart, F and Streeten, P.P.: "Conflicts between Output and Employment Objectives", in Jolly, R., De Kadt, E. et.al. (eds.), op.cit., p. 371.

The first policy is difficult to implement because of the relative costliness of using labour-intensive techniques in the production of durable and semi-durable goods and services. In a recent study, for example, Ahluwalia showed that the distributional effect of reducing the relative price of labour and raising that of capital, is likely to be limited by technological conditions of factor productivity and substitutability.[13] The same is not necessarily true of industries which produce goods demanded by the poor. This is because the production activites of such industries tend to be more labour-intensive than those of most other industries. The I.L.O. - report on Columbia states: "..... the basic goods which are widely purchased by those on low incomes are precisely the goods which are (or can be) produced with techniques considerably more labour-intensive than those used in the production of the goods demanded by the rich."[14] This is one of the important focuses of our subsequent analysis of development strategy in the homelands. In Chapter 5, for example, an analysis is made of the labour content of different industries in the homelands.

It would be naive to ignore the existence of a possible conflict between the growth of output and employment growth. Any deliberate attempt to expand employment may well involve a sacrifice in the growth of output inasfar as some labour-

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13 See Chenery, H., Ahluwalia, M.S. et.al., op.cit., pp. 74-78

14 International Labour Office: "Income Distribution and Employment", in Jolly, R, De Kadt, E. et.al. (eds.), op.cit., p. 140.

intensive techniques may be technically less efficient than capital-intensive ones. In some cases capital-intensive methods may use less capital per unit of output than labour-intensive methods.[15] There is strong evidence, however, that the opposite is true of many industries which produce for the local markets of developing countries.[16] There is also no reason why labour-intensive techniques could not be made more productive by technological improvements and innovations.[17] Furthermore, to the extent that productivity is measured in terms of the given market prices of capital and labour, any difference in productivity between capital-intensive and labour-intensive techniques may be quite meaningless. This is because market prices do not necessarily reflect the social opportunity costs of employing labour and capital in a developing economy.[18] It is in this sense that strategies which emphasise employment at the

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15 See Stewart, F., and Streeton, P.P., op.cit., p. 368.

16 See for example Gouverneur, J.: Productivity and Factor Proportions in Less Developed Countries, Oxford University Press, 1971, Chapter X; Marsden, K.: "Progressive Technologies for Developing Countries", in Jolly, R, De Kadt, E. et.al. (eds.), op.cit., p. 320 and Stewart, F. and Streeton, P.P., op.cit., p. 370.

17 See Marsden, K., op.cit., and Chenery, H., Ahluwalia, M.S. et.al., op.cit., pp. 88-89.

18 See International Labour Office: Employment and Economic Growth, ATAR. S.A., Geneva, 1964, pp. 136-137 and Little, I.M.D. and Mirrlees, J.: Manual of Industrial Project Analysis in Developing Countries, Vol. II : Social Cost-Benefit Analysis, O.E.C.D., Paris, 1969.

expense of output, are often regarded as socially desirable - "It is worth sacrificing production to reduce this evil (of unemployment)."[19]

An aspect of development strategy which has been greatly neglected in the literature is the distribution of resources between different regions of a country. This is probably due to the fact that any redistribution of income among individuals usually also implies a redistribution of income between regions. In the present case, however, this does not necessarily apply as the homelands are separate national entities which are administered independently from one another. It is therefore necessary to inquire into the distribution of resources between the various homelands. This is done in Chapter 6 where an attempt is made to determine whether available resources are being allocated in accordance with the relative needs of the individual homelands; more specifically, we shall look into the inter-homeland distribution of employment opportunities likely to be created by decentralising industries and the Development Corporations. And finally, an attempt is also made to determine the so-called induced growth potential of the homelands, i.e. the size and extent of local income-generating activities which are likely to be induced by exogenous sources of income in the homelands.

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19 Stewart, F. and Streeton, P.P., op.cit., p. 372.

## Chapter 5. Economic Strategy : The Development Dimension

In most countries the development problem arises from the failure to allocate resources in accordance with the demands of the majority of the people. This usually means that resources are not being allocated in accordance with the corresponding endowment of resources. It is in this context that the present chapter attempts to assess the economic development strategy in the homelands. There is no doubt that, in terms of its availability, unskilled labour is the most important factor of production in the homelands. And it is our purpose to determine whether the present policy succeeds in utilising this relatively abundant supply of unskilled labour in the homelands.

In the first section below some information is given on the distribution of public expenditure between the different sectors of the homeland economies. This partly reflects the relative importance attached to the various development programmes in the homelands. In sections (ii), (iii) and (iv) we investigate the employment potential of industrial development in the growth points of the homelands. Sections (ii) and (iii) compare the capital-labour ratio's of industries in the border areas with those of industries in the interior growth points. This is followed in section (iv) by an analysis of the capital-labour ratio's of different types of industry in the homeland. In the final section, which deals with agricultural development, attention is drawn to the need to introduce labour-intensive techniques of production in the agricultural sector of the homelands.

(i) The Allocation of Public Resources

The public sector plays an important role in the economic development of the homelands. In 1968 public expenditure constituted about 40 per cent of total domestic expenditure in the homelands[1]; since then it has most probably increased in relation to private domestic expenditure.[2] The importance of the public sector is further shown by the fact that public expenditure forms a most important source of autonomous expenditure in the predominantly subsistent economies of the homelands.[3] The public sector is therefore an important determinant of development strategy in the homelands, and in this section an attempt is made to analyse the composition of public expenditure in the homelands. Before so doing, however, it is necessary to briefly unravel the rather complicated institutional framework within which the public sector operates in the homelands.

In Table 5.1 we present data on the sources of public revenue received by the individual homeland governments. The items shown in the first two rows all represent sums which are directly or indirectly transferred by the Republican or White Government to the homeland governments. The remaining item represents revenue derived from domestic sources, e.g. taxation,

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1 Lombard, J.A. and Van der Merwe, A.J.: "Central Problems of the Economic Development of Bantu Homelands," Finance & Trade Review, Vol. X, No. 1, June 1972, p. 16.

2 Ibid. See also the Bureau for Economic Research re Bantu Development's economic revues of the homelands, Pretoria, 1975.

3 See section (v) of Chapter 6 below.

licencing fees, stamp duties, fines, rent and sales of agricultural produce. More specifically, the value of statutory grants is determined by the amount of direct taxation paid to the

Table 5.1 The Sources of Revenue of the Homeland Governments

| | | 1972-73 | 1973-74 | 1974-75 |
|---|---|---|---|---|
| 1. | Statutory and Additional Grants | 125.2 | 143.0 | 216.2 |
| 2. | Credited from Department of Bantu Administration and Development to Bantu Trust | 78.4 | 96.5 | 137.8 |
| 3. | Own Sources | 35.5 | 41.3 | 45.0 |
| 4. | TOTAL | 239.1 | 280.8 | 399.0 |

Source: South African Institute of Race Relations : A Survey of Race Relations in South Africa, Reports for 1973, 1974 and 1975, Natal Witness.

Republican Government by the non-homeland members of each of the respective Black nations. In the case of Bophuthatswana, for example, the statutory grant amounted to about R7.5 million or 23 per cent of total revenue in 1974-75[4]; this is equal to the

4 Bureau for Economic Research re Bantu Development : Bophuthatswana Economic Review 1975, Government Printer, p. 58.

amount of direct taxation paid by Tswanas who live and work permanently in the non-homeland or White parts of South Africa.[5] Additional grants are simply residual amounts which are determined on the basis of differences between public expenditure in the homelands and all other items of public revenue. Finally, the items shown in row 2 of Table 5.1 are amounts credited to the Bantu Trust from the Revenue and Loan Accounts of the Department of Bantu Administration and Development; these amounts are directly spent in the homelands by the Bantu Trust, which is simply an executive body of the last mentioned Department.

All this indicates that the Republican Government contributes by far the largest proportion of the public revenue of the homelands - R240 million or 85 per cent of total public revenue in the financial year 1973-74. In contrast, the homeland governments undertake most of the total public expenditure in the homelands. In 1973-74 the homeland governments spent about R184 million or 65 per cent of total public expenditure in the homelands. The remaining amount was directly spent by the Bantu Trust on such programmes as land purchasing, township development, the provision of health services and the establishment of industrial and commercial undertakings.

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5 The Republican Government is reported to consider the possibility of transferring to the homeland governments part of or all the revenue raised from indirect taxation falling on Blacks living in non-homeland South Africa (see South African Institute of Race Relations 1972, op.cit., pp. 188-189). There is no certainty, however, as to the nature and magnitude of problems regarding the identification, administration and allocation of such revenue between the individual homeland governments.

Development strategy in the homelands is partly reflected by the distribution of public expenditure between the sectors of the economy. This is shown in Table 5.2. The estimates in the table refer to 1971-72 which is the only year for which detailed information on the distribution of public expenditure is available.[6] In that year no less than R127 million or 60 per cent of total public expenditure was spent on such services as health, population settlement (which includes township development) and education. This compares with an amount of R39 million, or 18 per cent of the total, spent on the so-called physical productive capacity of the homelands, i.e. agriculture, mining, manufacturing industry and commerce. More specifically, the amounts spent on welfare and health services (27 per cent), population settlement (18 per cent) and education (15 per cent) formed the largest shares of public expenditure in the homelands. The share of industry and commerce equalled 13 per cent and that of overhead support 14 per cent in 1971-72. An interesting statistic is the relatively small amount spent on agricultural development in the homelands - about R10 million or 4.6 per cent of total public expenditure; this may partly explain the low yields and high underemployment in the agricultural sector of the homelands.[7]

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6 A number of sources indicate, however, that the composition of public expenditure has not changed significantly since 1971-72. It appears that the proportions of total expenditure spent on agricultural development and the provision of health and educational services, have increased only slightly since 1971-72. This seems to have been offset by correspondingly small reductions in the proportions spent on land acquisition and population settlement (See Malan, T. and Hatting, P.S. (eds.): Swart Tuislande in Suid-Afrika, Africa Institute, 1975, Chapter 12; Bureau for Economic Research re Bantu Development, op.cit., p. 59; and S.A. Institute of Race Relations 1974, op.cit., p. 185-188).

7 See Chapter 4 above.

Table 5.2 The Percentage Distribution of Public Expenditure in the Homelands - 1971-72

| | Physical Productive Capacity | | | | Infrastructural Services | | | | Land Acquisition | Overhead support | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Agriculture | Commerce and Industry | Mining | TOTAL | Population settlement | Education | Welfare and Health | TOTAL | | | |
| Basotho-quaqua | 1.0 | 13.9 | - | 14.9 | 35.6 | 21.3 | 6.2 | 63.1 | .4 | 21.7 | 100 |
| Bophuthatswana | 1.5 | 19.3 | 1.6 | 22.4 | 29.4 | 18.2 | 8.9 | 56.5 | 12.3 | 8.7 | 100 |
| Gazankulu | 7.6 | 11.4 | 1.7 | 20.7 | 17.1 | 19.9 | 10.1 | 47.1 | 11.8 | 20.3 | 100 |
| Kwazulu | 5.3 | 17.1 | .02 | 22.4 | 53.7 | 4.2 | .7 | 58.6 | 19.0 | - | 100 |
| Lebowa | 5.4 | 12.7 | .1 | 18.2 | 10.4 | 32.9 | 16.3 | 59.6 | 4.3 | 17.9 | 100 |
| Swazi | 32.8 | 6.2 | - | 39.0 | 43.9 | 14.7 | 2.1 | 60.7 | .4 | - | 100 |
| Venda | 6.5 | 2.9 | - | 9.4 | 13.2 | 36.7 | 15.3 | 65.2 | 1.2 | 24.0 | 100 |
| Xhosa-Ciskei | 6.7 | 17.2 | .2 | 33.4 | 26.8 | 30.6 | 12.2 | 69.6 | 10.3 | 13.2 | 100 |
| Xhosa-Transkei | 9.3 | | .01 | | 8.2 | 22.6 | 13.2 | 44.0 | 9.3 | 14.6 | 100 |
| Unclassifiable | - | 5.1 | .2 | 5.3 | - | .4 | 74.0 | 74.4 | - | 20.4 | 100 |
| TOTAL | 4.6 | 13.3 | .4 | 18.3 | 17.8 | 15.1 | 26.9 | 59.8 | 8.0 | 13.9 | 100 |

Source: Adapted from Department of Foreign Affairs: South Africa - A Multi-national Country, Cape and Transvaal Printers, p. 60.

It also appears from Table 5.2 that great differences exist in the distribution of public expenditure between the individual homelands. In 1971-72 the proportion of total public expenditure spent on infrastructural services varied from 70 per cent in the Ciskei to 57 per cent in Bophuthatswana and 44 per cent in the Transkei. Similar differences existed with respect to public investment in the physical productive capacity. The differences were even greater for individual items of expenditure; for example, the proportion spent on industry and commerce varied from 19 per cent in Bophuthatswana to 3 per cent in the Venda homeland, while that spent on education varied from 37 per cent in the Ciskei to 4 per cent in Kwazulu. It is quite possible that these large differences arise from the fact that the individual homeland governments are relatively free to allocate resources according to their own wishes.

Public expenditure in the homelands generally appears to fit into a type of unbalanced budgeting strategy which, at the present time, favours the development of infrastructural services to an expansion in the physical productive capacity. An unbalanced budgeting strategy may be defined as a situation in which the allocation of public resources between different sectors is significantly different from the relative contribution made by these sectors to the national product.[8] This seems to be

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8 See Heller, W.W. "Fiscal Policies for Under-developed Countries," in Bird, R. and Oldman, O. (eds.): Readings on Taxation in Developing Countries, John Hopkins Press, 1964, pp. 7-8.

true of the homeland economies. The proportion of total public expenditure spent on infrastructural services appears to exceed the relative contribution made by those services to the gross domestic product of the homelands;[9] similarly, the proportion spent on agricultural development is much smaller than the percentage contribution of agriculture to the gross domestic product.[10] The success or otherwise of such a strategy depends on the extent to which the existing infrastructural services can be utilised by either the private or public sectors.[11] And judging by the relative insignificance of the private sector, this condition is not likely to be adequately met in the homelands within the forseeable future.

It may well be argued that the urgency of the employment problem justifies an immediate increase in public investment in the physical productive capacity of the homelands. This would require a re-allocation of public resources from the social services to the agricultural, manufacturing and service industries of the economies. But the scope for such a re-allocation seems to be limited by the apparent importance attached to infrastructural services in the homelands. Examples of this include

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9 Lombard, J.A. and Van der Merwe, P.J., op.cit., p. 36.

10 For similar information in respect of other developing countries see Martin, A. and Lewis, W.A.: "Patterns of Public Revenue and Expenditure", in Bird, R. and Oldman, O. (eds.), op.cit., pp. 91-115; and Mountjoy, A.B.: Industrialisation and Under-developed countries, Hutchinson and Co, 1966, Chapter 9.

11 Investment in health and educational services, for example, will not by itself raise productivity in the agricultural sector.

the political importance attached to the policy of resettlement,[12] the resultant growing demand for health services, and the reported pressure exerted on the homeland governments to provide educational services to their people.[13] Even if it were possible to spend more on the physical productive capacity, it does not follow that such a strategy would necessarily solve the employment problem in the homelands. This depends on the way in which resources are allocated within and between the agricultural, manufacturing and service sectors of the homelands. And it is for this reason that the remaining part of this chapter is devoted to an analysis of the employment potential of investment in the physical productive capacity of the homelands.

(ii) The Employment Potential of Industrial Decentralisation : The Statistics.

In the introduction to Section III it was mentioned that the nature of the employment problem generally calls for the promotion of industries which are capable of meeting the demands of the majority of the people. In most cases these industries are also the ones which use relatively labour-intensive techniques of production. Any expansion of such industries is therefore likely to raise the share of (unskilled) labour in the national income of the country in question. This forms the basis of our subsequent inquiry into the employment potential of industrial decentralisation in the homelands. The analysis distinguishes between growth points which are situated close by

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12 See p. 31 above.

13 See Lombard, J.A. and van der Merwe, P.J., op.cit., p. 16.

the homelands, i.e. the border areas, and the so-called interior growth points.

In Chapter 1 the reader was briefly referred to some past estimates of the cost of providing employment in the growth points. To these one might add that the total current investment per additional job created in the growth points was estimated at R4,800 between 1960 and 1968.[14] Similarly, the Permanent Committee for the Decentralisation of Industry, presently known as the Decentralisation Board, found that the total private and public investment per additional job was equal to about R6,000 between 1960 and 1970.[15] These estimates are almost certain to exclude the capital investment per additional job created in the recently established interior growth points of the homelands; the industrial development of the interior growth points was only commenced with in about 1970, after permission had been granted to private White industrialists to invest in the homelands. Moreover, the above estimates are somewhat outdated and relate to employment opportunities created in respect of both White and Black labourers.

More up-to-date data are available from some recent publications[16] as well as the annual reports of the Decentralisation

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14 S.A. Institute of Race Relations, 1971, op.cit., p. 215.

15 Permanent Committee for the Decentralisation of Industry; Annual Report 1969, Government Printer, pp. 4-5.

16 These include Rhoodie, N.J. et.al. (eds.): Homelands - The Role of the Corporations, Chris van Rensburg Publications, 1974; and Malan, T and Hatting, P.S. (eds.), op.cit.

Board. These are put together in Tables 5.3 and 5.4.

Table 5.3 contains estimates of private and public investment (excluding investment in basic infrastructural services) and the number of additional employment opportunities created in the manufacturing sectors of both the border areas and interior growth points. Private investment is defined as the total current investment in land, buildings, plant and equipment of firms which have made use of the financial incentives available at the various growth points. Public investment, on the other hand, consists of the Government's direct investment in industrial buildings, share capital and loans made to the private sector[17]; in the border areas such investment is undertaken by the Industrial Development Corporation, while in the interior growth points public investment is the responsibility of the Xhosa Development Corporation and Bantu Investment Corporation. The estimated number of additional job opportunities is assumed to be directly associated with the corresponding amount of additional private and public investment; in the reports of the Decentralisation Board, for example, reference is made to the number of additional job opportunities expected to be created by means of additional private and public investment in a given year.[18]

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17 In the present analysis public investment excludes (i) investment in basic infrastructural services and (ii) investment in the forms of tax and interest concessions and transport rebates. This is because such investment is not directly associated with the number of additional jobs expected to be created by means of direct private and public investment in any given year.

18 This is made possible by the fact that the financial concessions to private enterprise are based on the number of job opportunities expected to be created by the proposed private investment; in order to qualify for financial assistance, a decentralising firm must submit the number of job opportunities likely to be created by its proposed investment.

It seems therefore reasonable to assume that the relationship between total (additional) investment and the corresponding number of additional job opportunities, is indicative of the capital-labour ratio's used in production at the various growth points.[19]

One problem with the latter assumption is the fact that loans made by the Government to decentralising firms, might have been double-counted in the Decentralisation Board's estimates of total additional investment in the growth points. For example, public investment is defined to include the value of such loans in a given year. Private investment is therefore implicitly assumed to include only those items of investment which have been financed from sources other than Government loans. Since the latter assumption has never been explicitly made, the possibility exists that part of the estimated private investment may have been financed from loans obtained from the Government; this would amount to double-counting inasfar as loans are included in the estimates of both private as well as public investment. This possibility is allowed for in the estimates shown in Table 5.4. In the table total investment, which consists of private as well as public investment, is reduced by the estimated value of loans granted by the Government to firms locating in the growth points. The effect of this is to reduce the Decentralisation Board's estimates of total investment in the 1970's by about 19 per cent. It is important to note, however, that the latter adjustment does not significantly alter

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19 This is similar to corresponding definitions used in other studies. (See for example Bell, T.: "Some Aspects of Industrial Decentralisation in South Africa", South African Journal of Economics, Vol. 41, No. 4, December 1973, pp. 420 and 423).

Table 5.2 Estimates of Private and Public Capital Investment and the Number of Additional Employment Opportunities Created in the Growth Points

| | BORDER AREAS | | | | INTERIOR GROWTH POINTS | | | ALL GROWTH POINTS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1960-70 | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 |
| Private Investment (R million) | 303.6 | 45.1 | 26.2 | 36.3 | 16.6 | 7.2 | 4.5 | 61.7 | 33.4 | 40.8 |
| Public Investment (R million) | 148.6 | 13.7 | 9.6 | 16.2 | 22.6 | 5.0 | 5.0 | 36.3 | 14.6 | 21.2 |
| Total Investment (R million) | 452.2 | 58.8 | 35.8 | 52.5 | 39.2 | 12.2 | 9.5 | 98.0 | 48.0 | 62.0 |
| Additional job opportunities - Whites | 9,258 | 761 | 411 | 288 | 123 | 119 | 115 | 884 | 530 | 403 |
| Additional job opportunities - Non-Whites[1] | 77,484 | 8,387 | 3,149 | 3,078 | 3000 | 3,954 | 3,828 | 11,387 | 7,103 | 6,906 |
| Private Investment per Non-White job (R) | 3,918 | 5,377 | 8,320 | 11,793 | 5,533 | 1,821 | 1,176 | 5,418 | 4,702 | 5,908 |
| Public Investment per Non-White job (R) | 1,918 | 1,635 | 3,049 | 5,263 | 7,533 | 1,265 | 1,306 | 3,188 | 2,055 | 3,070 |
| Total Investment per Non-White job (R) | 5,836 | 7,010 | 11,369 | 17,056 | 13,066 | 3,086 | 2,482 | 8,606 | 6,757 | 8,978 |

1 Non-Whites include Blacks as well as a small number of Coloureds and Asians.

Source:

1 Decentralisation Board: Annual Reports 1971, 1972 and 1973, Government Printer.

2 Rhoodie, N.J. et.al. (eds.), op.cit., Chapter 5.

3 South African Institute of Race Relations: Reports for 1972, 1973 and 1974, op.cit.

Table 5.4 Alternative Estimates of Private and Public Capital Investment and the Number of Additional Employment Opportunities Created in the Growth Points

| | BORDER AREAS | | | | INTERIOR GROWTH POINTS | | | ALL GROWTH POINTS | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1960-70 | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 | 1971 | 1972 | 1973 |
| TOTAL INVESTMENT[1] (R million) | 333.3 | 47.8 | 28.1 | 39.6 | 34.2 | 11.1 | 8.4 | 82.0 | 39.2 | 48.0 |
| Additional job opportunities - Whites | 9,258 | 761 | 411 | 288 | 123 | 119 | 115 | 884 | 530 | 403 |
| Additional job opportunities - Non-Whites | 77,484 | 8,387 | 3,149 | 3,078 | 3,000 | 3,954 | 3,828 | 11,387 | 7,103 | 6,906 |
| TOTAL INVESTMENT per Non-White job (R) | 4,302 | 5,699 | 8,923 | 12,865 | 11,400 | 2,807 | 2,194 | 7,201 | 5,519 | 6,950 |

1 Total investment is reduced by the value of loans granted by the Government to decentralising firms. In the case of the border areas, the value of such loans is assumed to be equal to 80 per cent of the Industrial Development Corporation's total direct investment in the border areas. Similarly, for the interior growth points it is assumed that loans equal 30 per cent of the Development Corporations' total direct investment.

Source:

1 Annual Reports of Industrial Development Corporation, Xhosa Development Corporation and Bantu Investment Corporation, Government Printer.

2 Table 5.3.

the difference in total investment per additional job between the border areas and interior growth points of the homelands.

Tables 5.3 and 5.4 indicate that in all growth points the total current investment per additional manufacturing job for non-Whites has increased quite substantially since the decade of the sixties - R8,600 (or R7,200 if double-counting is assumed) in 1971, R6,800 (or R5,500) in 1972 and R9,000 (or R7,000) in 1973. These estimates represent a very marked increase over the corresponding estimate of R5,800 (or R4,300) for the period 1960-70. The tables also indicate that this increase was not attributable to the fact that the industrial development of the interior growth points was only commenced with in 1970; a closer look at Table 5.3 reveals that, whereas total investment per additional non-White job increased from R7,000 in 1971 to R17,000 in 1973 in the border areas, the total investment per additional job in the interior growth points declined from R13,100 in 1971 to R3,100 in 1972 and R2,500 in 1973; these differences are only slightly reduced if allowance is made for a possible double-counting of loans in the estimates of total investment. It therefore appears that with the exception of 1971, the total investment per additional non-White job was much higher in the border areas than in the interior growth points during the period 1971-73.[20]

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20 This seems to be consistent with similar estimates which can be derived from data contained in Rhoodie, N.J. et.al. (eds.), op.cit., Chapter 5. The latter data, however, do not refer to any date and appear to have been based on a selected proportion of the total number of decentralising firms.

(iii) The Employment Potential of Industrial Decentralisation : The Reasons

In 1971 the Government set about the development of the interior growth points in all seriousness. In that year both the private and public sector invested large amounts in the interior growth points without much success in terms of the number of employment opportunities created. This was probably due to the high initial costs of locating in the relatively remote interior growth points of the homelands. It may also be true that decentralising firms depended heavily on the availability of industrial buildings and loans as a means of overcoming the initial lack of internal and external economies in the interior growth points. In subsequent years, however, the total investment per additional job in the interior growth points was much lower than in 1971, while in the border areas the total investment per job increased quite considerably between 1971 and 1973. It seems worthwhile to inquire into this large difference in the capital-labour ratio of industries between the border areas and the interior growth points.

In a recent publication Bell produced some evidence of capital-labour ratios in the border areas and interior of the homelands.[21] He found that these areas did not appear to have a particular comparative advantage in goods produced by means of labour-intensive techniques. Using 1960-61 data Bell showed that the border areas and homelands contained a relatively large number of highly capital-intensive industries and only a few

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21. Bell, T.: op.cit., pp. 401-431. See also Bell, T.: Industrial Decentralisation in South Africa, Oxford University Press, 1973.

labour-intensive industries. This seems to indicate that the mere existence of a cheap supply of unskilled labour is not in itself a sufficient condition for the emergence of unskilled labour-intensive industries in the growth points; the factor composition of industries in the growth points may well depend on factors other than the price of unskilled Black labour. The significance of this for the decentralisation policy lies in the fact that any attempt to lower the price of labour by means of subsidies, will not necessarily succeed in raising the labour content of new investment in the growth points.[22] In this respect it is of interest to note that the financial incentives do not appear to discriminate sufficiently between firms with different capital-labour ratio's; in the referred to article, for example, Bell showed that the additional benefit resulting from an increase in the non-White labour cost ratio from 10 to 15 per cent, was relatively small.[23] "It appears that the inducements are unlikely to provide much encouragement for the use of production techniques involving a larger ratio of non-White labour to other factors of production."[24]

While Bell's analysis may clarify some of the reasons for the relatively large investment per additional job in the growth points as a whole, it does not (and did not intend to)

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22 This seems to accord with the findings of similar studies in which it was shown that the distributional benefits from lowering real wages are limited by the relatively small elasticity of substitution between capital and labour. (See Chenery, H., Ahluwalia, M.S. et.al., op.cit., p. 75).

23 Op.cit., p. 415.

24 Ibid., p. 417.

explain the difference in the total investment per additional job between the border areas and interior growth points. For this it is necessary to briefly look at the spatial variation in the financial concessions which apply to the various growth points. In Chapter 2[25] we explained that the tax liability of firms locating in the growth points is normally reduced by an amount equal to (1) 10 per cent of the value of the additional production plant (excluding transport equipment, office equipment and furniture) at the date of establishment or expansion, and (2) a specified percentage of the wage bill for the total additional Black labour force during the first two years after establishment or expansion.[26] The latter percentage varies quite widely among the growth points, e.g. 50 per cent in the interior growth points of Sithebe, Umtata and Butterworth and 20 per cent in the border areas of Ladysmith and Newcastle. These differences are likely to have a relatively great inducement effect on labour-intensive industries so that, ceteris paribus, labour-intensive industries may be more inclined to decentralise to the interior growth points than capital-intensive ones.

This latter contention can be illustrated with an example which is similar to a case study quoted in a recent publication of the Department of Planning and the Environment.[27] In

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25 See p. 39 above.

26 These concessions have very recently been increased (see Eastern Province Herald, 5 June 1975, p. 11). These increases have not altered the spatial variation in the concessions, however, and are therefore not likely to have much affect on the results of this section.

27 Department of Planning and the Environment: Decentralisation-Growth Points, Chris van Rensburg Publications, 1974, p. 59.

Table 5.5 we distinguish between two hypothetical firms with identical profit levels. Firm A is assumed to use more capital per unit of labour than firm B. We also assume that the wage rate for Blacks is the same in all the growth points. In the case of firm A the total wage paid to Black workers within the first two years of operation is equal to R80,000 or 10 per cent of total costs. Similarly, firm B is assumed to pay an amount of R120,000 in Black wages which is equal to 15 per cent of total costs. The tax liability of firm A will either be reduced by R40,000 (i.e. 50 per cent of Black wages) or R16,000 (i.e. 20 per cent) depending on whether it locates in the interior growth points or in the border areas. The difference is R24,000 which is equal to 47 per cent of firm A's tax liability after allowing for the tax concession of 10 per cent of the value of the additional plant. In the case of firm B, the corresponding difference is R26,000 or 66 per cent of the tax liability. This means that the effect of the differential tax concession is much greater on firm B's tax liability than on that of firm A, namely 66 per cent compared to 47 per cent[28]; and it follows that firm B, which is more labour-intensive than A, is more likely to locate in the interior growth points than firm A. It seems therefore possible that differences in the tax concession may have contributed to differences in the capital-labour ratio between the border areas and the interior growth points.

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28 It can easily be shown that this difference in the effect of the differential tax concession reduces as the tax savings are spread over a longer period.

Table 5.5. The Effect of the Differential Tax Concession on firms using different Capital-Labour ratio's

| | FIRM A | FIRM B |
|---|---|---|
| Net Profit before tax during, say, the first three years:[1] | 150 | 150 |
| Tax thereon at 41 per cent:[2] | 61.5 | 61.5 |
| Tax concession of 10% of value of Additional plant:[3] | 10 | 7 |
| Tax liability: | 51.5 | 54.5 |
| Black Wage Bill during first two years: | 80 | 120 |
| Tax Concession on Black Wage Bill at: | | |
| - 50 % : | 40 | 60 |
| - 20 % : | 16 | 24 |
| Difference in Tax Concession on Black Wage Bill: | 24 | 36 |
| Difference in Tax Concession on Black Wage Bill as proportion of tax liability: | 46.6 per cent | 66.1 per cent |

1 These figures correspond to the average annual profit level used in the Department of Planning and the Environment's case study. (op.cit., p. 59).

2 This is the rate of company taxation in South Africa.

3 The value of the additional plant is assumed to be equal to R100,000 for firm A and R66,666 for firm B. This difference is therefore proportional to the difference in the Black wage bill between the two firms.

It is also possible, however, that the financial concessions may not have had much effect on the private sector's investment in either the border areas or the interior growth points.[29] Such investment may have been the result of the push-effect of the Physical Planning Act, rather than the pull-effect of the financial concessions. Similarly, some of the growth that has occurred in the growth points might have taken place even in the absence of the decentralisation policy. The above-mentioned difference in capital-labour ratios may therefore merely reflect a difference in the underlying demand conditions between the border areas and interior growth points. More specifically, the relatively capital-intensive nature of industries in the border areas may be partly due to the fact that these industries produce goods which are largely consumed by such high-income groups as the Whites and urban Blacks; and similarly, the labour-intensive nature of industries in the interior growth points may be partly attributed to the fact that they produce goods that are consumed by rural Blacks in the homelands.[30]

(iv) Employment and the Type of Industry

From a policy point of view, it seems necessary to specify the employment potential of industrial development in the homelands in terms of the type of industry; and in this section an attempt is made to relate the above-estimated investment per

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29 See Bell, T., op.cit., pp. 402-405.

30 See Rhoodie, N.J. et.al. (eds.), op.cit., p. 97 where it is mentioned that manufacturing industries in the homelands aim to satisfy local needs.

additional job to both the size and the type of industry in the border areas and interior growth points. The same will be done for other manufacturing industries in the homelands. Some attention will also be given to industries in the informal sector of the homelands.

In Table 5.6 some information is given on the size of decentralised undertakings and the corresponding investment per additional job created in the border areas and interior growth points. The size of an undertaking is defined in terms of its total investment in land, buildings, plant and equipment; alternatively, it may be defined in terms of the number of jobs created, since it appears that the total investment per undertaking is positively related to the number of jobs per undertaking. The table indicates, first of all, that no fewer than 42 undertakings, or 36 per cent of the total, have each invested more than R1 million in the border areas; this compares with 52 undertakings or 45 per cent which have each invested R 0.5 million or less in the border areas. In contrast, only 9 undertakings, or 11 per cent of the total, have each invested R1 million or more in the interior growth points, 52 undertakings or 66 per cent having each invested an average of R 0.5 million or less. It follows that the total investment per undertaking is much larger in the border areas than in the interior growth points. Not surprisingly, Table 5.6 also shows that the total investment per additional job for non-Whites varies directly with the size of the undertaking; in other words, although a large enterprise may create more job opportunities than a small one, it is likely to do so only by using more capital per labourer than the small enterprise. These findings seem to

Table 5.6 The Size of Decentralised Undertakings and the Estimated Total Investment per non-White job in the Growth Points - as at end of 1973

| Total Investment per Undertaking | BORDER AREAS[1] | | | INTERIOR GROWTH POINTS | | |
|---|---|---|---|---|---|---|
| | Number of Undertakings | Total Non-White Employment | Total investment per non-White job (R) | Number of Undertakings | Total non-White Employment | Total investment per non-White job (R) |
| R2 million and more | 26 | 19700 | 11700 | - | - | - |
| R1 million - R2 million | 16 | 4300 | 5500 | 9 | 1206 | 7808 |
| R0.5 million - R1 million | 22 | 3200 | 5400 | 18 | 2632 | 4346 |
| R0.5 million and Less | 52 | 3400 | 3100 | 52 | 3836 | 3755 |
| TOTAL | 116 | 30600 | 9214 | 79 | 7674 | 4595 |

1 The information for the border areas refers only to a selected proportion of the total number of decentralised industries.

Source: Adapted from Rhoodie, N.J. et.al. (eds.), op.cit., pp. 105 and 109.

support the recent emphasis placed on the important role played by the small-scale industrial sector in the promotion of labour-orientated development strategies.[31]

Information on the capital-labour ratios used by different industries in the border areas is available only for the Homeland of Bophuthatswana.[32] In the border areas of Bophuthatswana the total capital investment undertaken by decentralised industries and the Industrial Development Corporation, amounted to about R109 million by the end of March 1974. This provided employment to an additional 12,200 Black workers which means that the total investment per additional job was equal to R9,000. Industries in these border areas include such traditionally capital-intensive ones as metal products, machinery and equipment, chemicals, petroleum, coal and rubber and plastic products.[33] In the remaining homelands the same information is available only for the interior growth points and other regions within the homelands. In Table 5.7 we present data on the total investment and corresponding number of additional jobs of industries which have been established under the agency system in the interior growth points. The table shows that industries which are relatively capital-intensive are those producing fibre products, timber products and clothing. Industries which may be classified as reasonably capital- or labour-intensive include structural and other engineering and furniture. The relatively labour-intensive industries include textiles (other than clothing), leather,

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31 See pp. 130-131 below.

32 Bureau for Economic Research re Bantu Development, op.cit., p. 40.

33 Ibid.

Table 5.7 The Estimated Total Investment per Job of Decentralised Industries in the Interior Growth Points - as at 31-3-73

| INDUSTRY | Number of Enterprises | Total Capital Investment (R,000) | Additional job opportunities for Blacks | Total Investment per Black job (R) |
|---|---|---|---|---|
| Clothing | 9 | 9416 | 1206 | 7808 |
| Other textiles | 9 | 5720 | 1720 | 3326 |
| Leather and Footwear | 5 | 823 | 675 | 1219 |
| Furniture | 6 | 3226 | 670 | 4815 |
| Other Timber Products | 3 | 2493 | 242 | 10302 |
| Sawmills | 5 | 1474 | 763 | 1932 |
| Paper and Paper Products | 3 | 353 | 162 | 2179 |
| Fibre Products | 4 | 450 | 35 | 12857 |
| Structural Engineering | 16 | 3805 | 830 | 4584 |
| Other Engineering | 13 | 5597 | 1008 | 5553 |
| Other | 6 | 1904 | 363 | 5245 |
| TOTAL | 79 | 35261 | 7674 | 4595 |

Source:

Adapted from Rhoodie, N.J. et.al. (eds.), op.cit., p. 113.

footwear, sawmills and paper and paper products.

Apart from providing assistance to White firms locating in the interior growth points on an agency basis, the Bantu Investment Corporation and Xhosa Development Corporation also establish small manufacturing concerns themselves in the homelands. This is done with the specific purpose of transferring the ownership and management function to Blacks within a relatively short time period. The total capital investment in respect of such undertakings amounted to about R2,300 per additional job at the end of March 1973[34]; this is only 50 per cent of the estimated total investment of R4,300 per job created in the interior growth points under the agency system.[35] Industries initiated by the Corporations include grain mills, bakeries, meat processing, sweet manufacturing, beer breweries, furniture and weaving. The Corporations also make loans available to Black businessmen for the establishment of a wide variety of service industries; there are, however, no data available on the number of job opportunities created via the Corporations' loans policy.

The employment potential of the informal sector has been greatly neglected in the literature on the homelands. This may well be due to an acute lack of data on informal-sector activities in the homelands. But this is no reason to ignore the role of the informal sector in the economies of the homelands. In a number of developing countries, for example,

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34 Rhoodie, N.J. et.al. (eds.), op.cit., p. 101.

35 See Table 5.7.

it has been shown that self-employed workers constitute a relatively large proportion of total employment in the agricultural, manufacturing and service industries[36]; the same may also be true of the homelands where the so-called subsistence sector is reported to be relatively large.[37] One of the characteristics of the informal sector is the use of labour-intensive techniques in small-scale manufacturing and service industries.[38] And it is in this context that the I.L.O. reports on Kenya and Columbia have recently emphasised the role of the informal sector in the promotion of employment-orientated development strategies.[39] In these reports a strong case was made for the adoption of measures to raise the productivity of such informal-sector activites as trade, transport and small-scale processing. These measures included a review of the existing health and housing standard, the total or partial abolishment of the licensing system, a greater availability of loan capital, increased government purchasing of goods and services in the informal sector and the initiation of technical research into the type of product suitable for production in the informal sector.[40]

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36 See Bhalla, A.S.: "The Role of Services in Employment Expansion," and Hart, K.: "Informal Income Opportunities and Urban Employment in Ghana", in Jolly, R. et.al. (eds.), op.cit., pp. 287-300 and 66-70.

37 Lombard, J.A. and van der Merwe, P.J., op.cit., p. 13.

38 ILO: Towards full employment: A Programme for Columbia, Geneva, 1970 and ILO: Employment, Incomes and Equality: A Strategy for increasing Productive Employment in Kenya, Geneva, 1972.

40 Ibid. See also Singer, H. and Jolly, R.: "Unemployment in an African setting: Lessons from the Employment Strategy mission to Kenya", International Labour Review, Vol 107, No. 2. Feb. 1973, pp. 106-108 and Emmery, L.: "A New Look at some Strategies for increasing productive Employment in Africa", International Labour Review, Vol. 110, No. 3, Sept. 1974, pp. 201-204.

Most of these measures are directly applicable to the homelands. For example, there may well be a need to relax some of the licensing policies which exist in towns like Mdantsane, Garankuwa and Sithebe. Licensing is in many ways a western invention whose only purpose is to maintain western standards of health and business conduct. Such standards are maintained by the artificial creation of oligopolistic markets, in which the distribution of goods and services is placed in the hands of those who are capable of meeting the specific conditions of the licensing system. The resultant high prices usually give rise to the emergence of an informal sector which, although illegal, provides a more equitable service than the formal sector. Furthermore, the goods and services in the informal sector are not necessarily inferior to those obtainable in the formal sector; and even if they did appear to be inferior to a western observer, it does not follow that they are similarly regarded by the Black consumer in the homelands.

It may also be possible to use the loans policy of the Development Corporations as a means to promote informal sector activities in the homelands. In the past the Corporations have been severely criticised for supplying too few loans at too high an interest rate.[41] The latter rate, for example, is reported to be the same as the interest rate obtainable from similar institutions in the White areas of South Africa.[42] The Corporations also insist on obtaining some form of security from prospective borrowers. Furthermore, it appears that loan

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41 South African Institute of Race Relations, 1972, op.cit., p. 195.

42 Ibid.

transactions are subject to certain conditions relating to the management abilities of prospective borrowers. This point is worth quoting in more detail: "The method used in evaluating the requests for assistance is to weigh the personal factors pertaining to the applicant against the demands and potential of the business. Each applicant's age, training, previous experience, specific business knowledge and acumen and training potential are considered. Assets and liabilities are examined as well as the buying power on which the business concerned will be able to rely, in order to ensure economic success is surveyed."[43] All these practices have given rise to the fact that the Corporations only accept a small proportion of the total number of applications for loans - 16 per cent by the end of 1972.[44] These were mostly in respect of such relatively large-scale service industries as general dealers, liquor stores, garages, restaurants, cafes and hotels.[45]

There is clearly a need to provide more loans to small-scale manufacturers and traders in the informal sector of the homelands, e.g. tailers, shoemakers, artisans, builders, repair shop owners and petty traders. Some of these industries may use less capital per unit of labour than industries which have been established with the aid of Corporation loans. And if this is true, it follows that the employment objective will be better met if more loans are made available to manufacturers and traders in the informal sector. Apart from these macro-

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43 Rhoodie, N.J. et.al. (eds.), op.cit., p.123.

44 Malan, T. and Hatting, P.S. (eds.), op.cit., p. 53.

45 Ibid., pp. 52-53.

economic considerations, it is also possible that a well-established informal sector may produce more goods at lower prices than a formal sector which is characterised by oligopolistic market forms. It should indeed be realised that many informal-sector activities, far from using the techniques and codes of business conduct endorsed by the Development Corporations, provide a useful service to the people of the homelands.

(v) Agricultural Development Strategy

Our analysis of development strategy in the homelands would be incomplete without some reference made to the development of the agricultural sector. Such reference has already been partly made in Chapter 4 where an attempt was made to estimate the size and extent of underemployment in the agricultural sector of the homelands. It remains necessary, however, to spell out some of the policy implications of agricultural development in the homelands.

In Chapter 4 it was mentioned that past efforts to develop agriculture have largely consisted of land-intensive (as opposed to capital- and labour-intensive) methods of production, e.g. the erection of fences and the conservation of soil by means of grass planting and the building of contour banks. These measures have rendered very modest results; we have already shown that, although more than half of the total land surface of the homelands is reported to have been planned on a land-intensive basis, the average grain yield per unit of land has remained more or less unchanged during the past few decades.[46]

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46 See p. 27 above.

This compares rather unfavourably with some recent estimates of the production potential of agriculture in the homelands. A number of writers has shown that the homelands' existing level of food and animal production can be greatly increased by a more intensive utilisation of the soil.[47] These estimates are not very meaningful, however, as they have not been accompanied by any proposal regarding the means by which to realize the full agricultural potential of the homelands.[48]

In this respect it has been suggested that people should be released from the land so as to raise productivity in the agricultural sector[49]; but such a strategy would seem to be quite inappropriate in view of the large number of people involved,

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47 See Grobler, J.H.: "Die Landboupotensiaal van die Bantoegebiede," Journal of Race Relations, January 1970, pp. 3-10; Weideman, J.J.S. and Smith, D.J.G.: "Ekonomiese Beplanning van Boerdery-eenhede in sekere Suid-Afrikaanse Bantoegebiede," Agrekon, Vol. 9, No. 1, January 1970, pp. 35-50; and Houghton, D.H.: The South African Economy, Oxford University Press, 1964, pp. 74-75.

48 For similar criticism see Maasdorp, G.G.: Economic Development for the Homelands, S.A. Institute of Race Relations Publication, 1974, p. 12.

49 See Du Plessis, M.A.: "Grensgebied- en Tuislandartwikkeling-Probleme en Vooruitsigte," Journal of Racial Affairs, Vol. 22, No. 3, July 1971, pp. 96-104.

and, more specifically, the relatively limited employment potential of non-agricultural development projects in the homelands. More recently, Brand,[50] Lipton[51] and others have come out in favour of a more labour-intensive strategy of agricultural development. They argued that the labour-input of agricultural development can be much increased by the use of such labour- (and capital-) intensive measures as the application of irrigation, seeds, fertilizer and pesticides, and the promotion of credit and market facilities. Given the shortage of land and capital and the plentiful supply of labour in the homelands, "the obvious strategy is to go for a labour-intensive agriculture."[52] It should be realized, however, that the employment potential of agriculture depends on the alternative factor proportions obtainable within the agricultural sector of the homelands. An increase in the input of labour may well require some increase in the input of capital.[53] It may also be true that some minimum amount of land is necessary for the application of modern technology to

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50 Brand, S.S.: "Agricultural and Economic Development in Southern Africa," paper delivered at Conference on Accelerated Development in Southern Africa, Jan Smuts House, March 1972.

51 Lipton, M.: "The South African Census and the Bantustan Policy", World Today, Vol. 28, No. 6., pp 257-271.

52 Ibid., p. 264.

53 See Eckaus, R.S. "The Factor Proportions Problem in Underdeveloped Areas", American Economic Review, September 1955, p. 540.

traditional farming. Erosion of the soil, the magnitude of which is quite formidable in the homelands, is for instance counteracted by the introduction of rotational crop and grazing systems which obviously require much land.[54]

Apart from the experience of southeast Asian countries like Taiwan, Sri Lanka and Japan, most of which are not strictly comparable with the homelands, there is evidence relating to the African continent which suggests that the growth of agricultural output is positively related to the growth of employment.[55] In Kenya and Tanzania, for example, extensive grazing areas have been transformed into intensive mixed farm holdings (with maize, dairy cattle and milk) of sizes varying between 15 and 50 acres; moreover, the value added per acre on these holdings is reported to have increased many times.[56] Similar evidence is also available for the homelands. For example, in the Transkei and Ciskei the number of acres per full-time worker varies between 3 and 8 on the irrigation farms developed by the Xhosa Development Corporation.[57] Similar sizes also apply to the irrigation and

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54 See Brand, S.S., op.cit., p. 14.

55 Ruthenberg, H.: "A Decade of Agricultural Development in Tanzania and Kenya," paper delivered at Conference on Accelerated Development in Southern Africa, Jan Smuts House, March 1972; and Mouly, J. and Costa, E.: Employment Policies in Developing Countries, George Allen, 1974, pp. 139-142.

56 Ruthenberg, H., op.cit., p. 5.

57 Xhosa Development Corporation: Annual Report 1975, Hayna and Gibson, p. 42.

other agricultural projects initiated by the Bantu Investment Corporation in the other homelands.[58] These estimates compare very favourably with the bulk of agricultural holdings in the mixed and pastural regions of the homelands; in Chapter 4 it was estimated that the average size of these holdings varies between about 55 acres in Basotho-quaqua and 430 acres in Bophuthatswana.[59] It seems therefore likely that a more intensified utilisation of the soil will raise the number of families that can be accommodated on the existing mixed and pastural farm holdings in the homelands.

It hardly seems necessary to emphasise the need to redirect development towards the agricultural sector of the homelands: population growth rates are high, agricultural yields are low and unemployment and underemployment are alarmingly rife. These problems may be partly overcome by the increased use of capital- and labour-intensive techniques in the development of agriculture; and in this respect there seems to be some hope in the fact that the Corporations are considering the cultivation of crops which are highly labour-intensive, e.g. hand-picked long staple cotton, soya beans, rice, tea, vegetable seed and tobacco.[60] But these measures will not by themselves solve the development problem in the relatively large agricultural sector of the homelands. Adequate food is but one of the many demands

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58 Bantu Investment Corporation, Annual Report 1975, Government Printer.

59 See Tables 4.1 and 4.2 above.

60 Rhoodie, N.J. et.al. (eds.), op.cit., p. 67.

of the rural family. Others include health, education and such physical goods as building material, furniture, hand tools, clothing and other textiles. This calls for the active promotion of small-scale manufacturing and service industries which would meet the immediate demands of rural families in the homelands.[61] It may also be necessary to provide these industries with appropriate technical services so as to strengthen their competetive position vis-a-vis large-scale industries in the urban centres.[62] More important, however, is the need to realize the interrelationship between agricultural development and the development of small-scale industries in the rural areas; the success of the one depends on the success of the other. And both should form part of an overall programme for the development of the rural areas of the homelands.

(vi) Conclusion

In this chapter we have examined the employment potential of economic development in the homelands. This was done with a view to determining whether resources are being allocated in accordance with the natural resource endowment of the homelands. Since the latter largely consists of a relatively abundant supply of unskilled labour, our task was reduced to an analysis of the

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61 A similar case is made in Mouly, J. and Costa, E., op.cit., Chapter 5. See also Guha, S.: "The Contribution of non-Farm Activities to Rural Employment Promotion", International Labour Review, Vol. 109, No. 3, March 1974, pp. 235-250.

62 See Mouly, J. and Costa, E., op.cit., p. 98.

(unskilled) labour content of investment in the homelands. The analysis indicated, first of all, that manufacturing industries in the border areas use much more capital per unit of labour than industries which have located in the interior growth points under the agency system. The latter industries, in turn, use more capital relative to labour than manufacturing industries which have been established by the Development Corporations in the homelands. It therefore follows that more emphasis should be placed on the interior growth points and on the role of the Development Corporations in the industrial development of the homelands. In this respect it is encouraging to note that the Corporations regard this role with some importance: "It is definitely not the intention of the Corporations to withdraw as entrepreneurs ..... On the contrary, where it is possible, the Corporations are continually tackling new projects."[63]

On the other hand, it appears that the loans policy of the Corporations has generally failed to promote small-scale manufacturing and service industries in the homelands. Some of these industries have a high employment potential, and it seems necessary, from a social welfare point of view, that more loans should be made available to such small-scale manufacturers and traders as tailers, artisans, builders and petty traders. There is also an urgent need to introduce more labour- and capital-intensive techniques in the development of the agricultural sector, e.g. the application of seeds, fertilizer and pesticides. The latter sector, which carries by far the largest proportion of the homeland population, should form one of the major focuses of the development of the homelands.

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63 Rhoodie, N.J. et.al. (eds.), op.cit., p. 101.

## Chapter 6. Economic Strategy : The Regional Dimension

The decentralisation of industry forms an important part of the homeland development policy; it encompasses investment undertaken by decentralising industries, the financial concessions granted by the Government to decentralising industries and the promotion of physical and social infrastructural services in the various growth points. The economic potential of the homelands is therefore largely dependent upon the rate and direction of industrial decentralisation. And in this chapter we intend to analyse the decentralisation policy within the broader framework of the development of the homelands. We shall be mainly concerned with the rate and direction of industrial decentralisation, as well as with the induced growth potential of the policy. In particular, we shall concentrate on the following three aspects of decentralisation:

(1) the growth of manufacturing employment in the growth points;

(2) the inter-homeland distribution of the growth of manufacturing employment; and

(3) the induced growth potential of the homelands.

In sections (i) and (ii) below an attempt is made to estimate the future growth of manufacturing employment in the growth points; this is done on the basis of the Economic Development Programme's (EDP)[1] official estimates of the growth

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1 The EDP is a national economic plan of indicative nature, which is drawn up by the Office of the Economic Adviser to the Prime Minister.

of manufacturing employment in the country as a whole. The second aspect mentioned above, namely the inter-homeland distribution of manufacturing employment, forms the subject of sections (iii) and (iv). The spatial distribution of industrial activity is usually a function of the locational differences between regions; and in section (iii) we look at some of the location factors which determine the relative attractiveness of the growth points. Section (iv) deals with the degree of spatial variation embodied in the incentive measures - an obviously important determinant of the distribution of industrial activity among the homelands. In the final two sections some attempt is made to determine the induced or endogenous growth potential of the homelands, i.e. the size and extent of income-generating activities which are likely to be induced by such autonomous sources of income as industrial decentralisation and labour migration.

(i) The Growth of Manufacturing Employment in the Growth Points: Employment Ratio's

In Chapter 2[2] it was mentioned that no manufacturing industry is allowed to establish or expand in the major metropolitan centres unless it is either (1) classified as location-bound or (2) has a Black-White employment ratio (BWER) equal to 2 or less. Any foot-loose or divertible industry whose BWER exceeds the legal limit, is expected to establish or expand in the growth points. There are, however, no official data available on the divertibility of manufacturing industry in

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2 See section (ii) of Chapter 2.

South Africa.[3] And to begin with, we shall assume that all industries whose BWERs exceed the legal limit, are also divertible in the sense of being able to divert to the growth points.

In Table 6.1 we present estimates of the BWERs of the 24 manufacturing industries listed in the Industrial Census Reports of the Department of Statistics. The table also contains the EDP's estimates of the increase in manufacturing employment for Blacks between 1973 and 1979.[4] The latter increase is estimated at 240,000 or 40,000 per year for the total of manufacturing industries in South Africa. The corresponding increase of industries whose BWERs are in excess of the legal limit of 2, is estimated at 174,000 or 29,000 per year. If the latter industries are all assumed to be divertible, it follows that about 29,000 Blacks can be expected to find manufacturing employment in the growth points each year between 1973 and 1979.

One problem with this estimate is that some industries whose BWERs are less than the legal limit, may already be established in the growth points; employment growth in these industries has not been included in the latter estimate because of a lack of the relevant data. A more serious problem is the fact that some industries whose BWERs exceed the legal limit, for example those producing metal, rubber and plastic products, may in fact be location-bound and permitted to expand in the existing metropolitan centres.[5] In this respect Reynders has

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3 The Department of Planning is reported to be in the process of drawing up a list of those industries which are able to divert from the metropolitan centres to the growth points.

4 Office of the Economic Adviser to the Prime Minister : Economic Development Programme for the Republic of South Africa 1974-1979, Government Printer, Chapter 7.

5 This point will be further explored in the next section.

Table 6.1 The Black-White Employment Ratios and the Increase in the Black Labour Force of Manufacturing Industries in South Africa

| | Black-White Employment Ratio | Total Black labour force - 1973 (,000) | Estimated Average Annual Increase in Black labour force 1973 - 79 (,000) |
|---|---|---|---|
| Textiles | 7.500 | 60 | 4.3 |
| Wood and Wood products | 7.000 | 49 | 1.8 |
| Non-metallic mineral products | 4.750 | 76 | 4.5 |
| Processed Foodstuffs | 4.381 | 92 | 1.6 |
| Clothing | 4.000 | 40 | 3.2 |
| Furniture | 3.333 | 20 | 1.5 |
| Footwear | 3.000 | 6 | .3 |
| Beverages and tobacco | 3.000 | 21 | 1.2 |
| Basic non-ferrous metals | 3.000 | 9 | .5 |
| Metal products | 2.714 | 95 | 7.2 |
| Rubber products | 2.333 | 14 | 1.2 |
| Paper and paper products | 2.286 | 16 | .7 |
| Plastic products | 2.250 | 9 | 1.0 |
| Subtotal | | 507 | 29.0 |
| Leather and leather products | 2.000 | 2 | 0.0 |
| Industrial chemicals | 1.812 | 29 | .5 |
| Other chemical products | 1.500 | 6 | .2 |
| Transport equipment | 1.429 | 10 | .7 |
| Basic iron and steel | 1.429 | 40 | 3.5 |
| Motor vehicles and parts | 1.350 | 27 | 2.0 |
| Machinery | 1.222 | 33 | 1.2 |
| Electrical machinery and appliances | 1.176 | 20 | 1.7 |
| Miscellaneous manufacturing industry | 1.166 | 7 | .5 |
| Pharmaceutical preparations | 1.143 | 8 | .3 |
| Printing and publishing | .474 | 9 | .5 |
| Subtotal | | 191 | 11.1 |
| Grandtotal | | 698 | 40.1 |

Source: Adapted from Office of the Economic Adviser to the Prime Minister : Economic Development Programme for the Republic of South Africa 1974-79, Government Printer, Chapter 7.

suggested that about half of the total Black manufacturing labour force may be assumed to be employed with industries which are divertible.[6] This led him to the conclusion that half of the total increase in Black manufacturing employment may be expected to take place in the growth points[7]; a similar estimate also seems to have been made by the Decentralisation Board.[8] The problem with these estimates, however, is that they are based on the rather restrictive assumption that the growth of employment in divertible industries is equal to the growth of employment in location-bound industries. To avoid this problem, it is clearly necessary to define some index of the degree of divertibility of manufacturing industry.

(ii) The Growth of Manufacturing Employment: The Divertibility of Industry

The divertibility of industry is closely related to the difference in the costs of location between the growth points and the metropolitan areas.[9] This difference in costs, which may be defined as the marginal excess costs of diversion[10], is assumed to be an inverse function of the labour-intensity of industries; in other words, the marginal excess costs of diversion will be smaller, the larger is the labour cost ratio of

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6 Reynders, H.J.J.: "Die Werkverskaffingspotensiaal in die Tuislande met besondere verwysing na Nywerheidsdesentralisasie" in Yearbook of South African Bureau for Race Relations, Hayne and Gibson, 1970, p. 78.

7 Ibid.

8 Decentralisation Board: Annual Report, 1974, p. 1.

9 See Bell, T.: Industrial Decentralisation in South Africa, Oxford University Press, 1973, Chapter 8 and "Some aspects of Industrial Decentralisation in South Africa", South African Journal of Economics, Vol. 41, No. 4, December 1973, pp. 401-431.

10 Bell, T.: Industrial Decentralisation ....., op.cit.

industries, i.e. the ratio of labour costs to net output. This follows from the fact that wages are much lower in the growth points than in the metropolitan centres.[11] And it is possible that the labour cost savings achieved by a labour-intensive firm diverting to the growth points, will be greater than the corresponding increase in non-labour costs. An important non-labour cost is transport costs which, in contrast with capital, tend to vary quite widely over space. This variation in transport costs, however, appears to be much larger for heavy capital-intensive industries than for labour-intensive industries.[12] So it follows that the higher the labour cost ratio of industries, the smaller will be the increase in transport costs resulting from a diversion to the growth points. It therefore appears that the labour cost ratio is a useful indicator of the divertibility of industries for two reasons, namely the fact that it is (1) positively related to the labour cost savings and (2) inversely related to the increase in transport costs resulting from a diversion to the growth points.

A closely related determinant of divertibility is the proportion of unskilled labour in the total labour force of industries. The above-mentioned difference in wages between the growth points and metropolitan centres, is larger for unskilled than for skilled labour.[13] This means that for a given labour cost ratio, the higher the proportion of unskilled labour, the larger

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11 Bell, T.: Industrial Decentralisation ..... op.cit., Chapter 7.

12 Ibid., p. 166. See also McCrone, G.: Regional Policy in Britain, George Allen and Unwin, 1971, p. 56.

13 See footnote 11 above.

will be the labour cost savings arising from a diversion to the growth points. A lack of data on the latter proportion, however, compels us to make one more simplifying assumption, namely that the proportion of unskilled labour is closely related to the proportion of non-White labour in the total labour force of industries. It seems worthwhile to briefly list the various assumptions on which our subsequent analysis is based. These are as follows:

(1) the divertibility of industry is an inverse function of the marginal excess costs of diversion;

(2) marginal excess costs are inversely related to the labour cost ratio of industries;

(3) the labour cost ratio is positively related to the labour cost savings, and inversely related to the increase in transportation costs associated with a diversion to the growth points;

(4) the relationships in (3) will be stronger the higher is the proportion of unskilled labour in the total labour force of industries; and

(5) the proportion of unskilled labour is positively related to the proportion of non-White labour in the total labour force of industries.

It is therefore assumed that the proportion of non-White labour is an appropriate indicator of the divertibility of manufacturing industries. In Table 6.2 we present estimates of the proportion of non-White labour in the total labour force of

Table 6.2 The Non-White proportion of the Labour Force and the Increase in the Black Labour force of Manufacturing Industries in South Africa

| | Non-White proportion of total labour force 1973 | Total Black labour force - 1973 (000) | Estimated Average Annual increase in Black labour force 1973 - 79 (000) |
|---|---|---|---|
| Footwear | 94.444 | 6 | .3 |
| Clothing | 92.481 | 40 | 3.2 |
| Textiles | 90.909 | 60 | 4.3 |
| Wood and wood products | 89.063 | 49 | 1.8 |
| Leather and leather products | 87.500 | 2 | 0.0 |
| Processed Foodstuffs | 85.211 | 92 | 1.6 |
| Non-metallic mineral products | 84.158 | 76 | 4.5 |
| Furniture | 83.784 | 20 | 1.5 |
| Subtotal | | 345 | 17.2 |
| Beverages and tobacco | 80.000 | 21 | 1.2 |
| Plastic products | 80.000 | 9 | 1.0 |
| Paper and paper products | 78.125 | 16 | .7 |
| Basic non-ferrous metals | 76.923 | 9 | .5 |
| Metal products | 76.027 | 95 | 7.2 |
| Rubber products | 73.913 | 14 | 1.2 |
| Industrial chemicals | 67.347 | 29 | .5 |
| Motor vehicles and parts | 67.213 | 27 | 2.0 |
| Other chemical products | 66.666 | 6 | .2 |
| Miscellaneous manufacturing products | 66.666 | 7 | .5 |
| Electrical machinery and appliances | 64.583 | 20 | 1.7 |
| Transport equipment | 63.158 | 10 | .7 |
| Pharmaceutical preparations | 61.111 | 8 | .3 |
| Basic iron and steel | 59.420 | 40 | 3.5 |
| Machinery | 57.813 | 33 | 1.2 |
| Printing and publishing | 50.000 | 9 | .5 |
| Subtotal | | 353 | 22.9 |
| Grandtotal | | 698 | 40.1 |

Source: See Table 6.1

manufacturing industries; these are arranged in a declining order of the non-White labour proportion. Information is also given on the Black manufacturing labour force and the estimated increase therein between 1973 and 1979. If we assume along with Reynders that half of the total Black manufacturing labour force is employed with divertible industries, it appears from Table 6.2 that 8 of the 24 manufacturing industries may be assumed to be divertible; these industries employed about half of the total number of Black manufacturing workers in 1973. It also appears that, with the exception of the small leather industry, all these industries have BWER's in excess of the legal limit of 2. The increase in the Black labour force of divertible industries is estimated at 104,000 or 17,333 persons per year between 1973 and 1979. This compares with a corresponding increase of 136,000 or 22,666 per year for non-divertible manufacturing industries. And it follows that the estimated employment growth of divertible industries is smaller than that of non-divertible industries.

Is it now reasonable to assume that the number of Black manufacturing jobs in the growth points will increase by about 17,000 per year within the forseeable future? Apparently not. Our estimate is, first of all, subject to an aggregation problem. The BWER's of some individual firms in the "divertible industry" category may be less than the legal limit of 2; these firms are allowed to expand in the metropolitan areas, and to the extent that this is the case, the figure of 17,333 jobs will represent an over-estimation of the growth of manufacturing employment in the growth points. Another problem, to which we have already referred, is the fact that some of the non-divertible industries may already be established in the growth points,

particularly in the border areas. The increase in employment of these industries would have to be added to the estimate of 17,333 in order to arrive at a more precise estimate of employment growth in the growth points. In 1970 it appeared that manufacturing employment in the growth points comprised about 12 per cent of total manufacturing employment in South Africa.[14] If we now assume that 12 per cent of the increase in employment of non-divertible industries will take place in the growth points, it follows from Table 6.2 that a further 16,320 jobs or 2,720 jobs per year are likely to be created for Blacks in the growth points between 1973 and 1979. On this basis the growth of manufacturing employment for Blacks in the growth points is estimated at about 20,000 jobs per year between 1973 and 1979.

Apart from some of the simplifying assumptions already mentioned, there is a number of reasons why the estimate of 20,000 jobs may not reflect the actual growth of manufacturing employment in the growth points. Firstly, it was based on projections made by the EDP of the growth of the gross domestic product and of the productivity of labour between 1973 and 1979. Large differences between the latter growth rates and those actually experienced in practice would, of course, render results quite different from the above ones. For example, if the actual productivity of labour were to exceed the EDP's corresponding estimate, such as has happened in the past[15], the

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14 Bell, T.: "Some Aspects of .....," op.cit., p. 404.

15 See Office of the Economic Adviser to the Prime Minister, op.cit., p. 21.

increase in manufacturing employment would be less than the estimated increase therein. These differences have not been very large in the past, however, and any similar difference is not likely to have a significant affect on our estimate of employment growth in the growth points.

Secondly, we have implicitly assumed that the financial incentives are sufficient to induce those industries defined as divertible, to locate in the growth points. This may not necessarily be the case. The question here is whether the financial incentives are large enough to offset the marginal excess costs associated with a diversion to the growth points. While it is not possible to give a precise answer to this question, it may be useful to briefly look at others' research into the effectiveness of financial incentives in general. In a major study of British firms, Luttrell found the excess costs of diverted industries to be quite substantial during the first year of operation.[16] In subsequent years, however, these costs declined rather rapidly because of the fact that plants were being utilised much more fully than in the first year. This compares rather unfavourably with Bell's finding that the major impact of the financial incentives in South Africa is only felt a number of years after the diversion has taken place.[17] It is therefore possible that the initial excess costs of diversion may be too high to be offset by the financial incentives.[18] But this will not necessarily deter

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16 Luttrell, W.F.: Factory Location and Industrial Movement, Vol. 1, National Institute of Social and Economic Research, London, 1962, pp. 248-300.

17 Bell, T.: "Some Aspects of .....," op.cit., pp. 412-417.

18 Ibid., p. 415.

industries from diverting to the growth points. The decision to decentralise depends more generally on the difference in the discounted present value between the excess costs and cost savings resulting from a diversion to the growth points; and it should be noted that the latest increase in the financial incentives may well raise the labour cost savings of industries diverting to the growth points.[19]

Thirdly, our estimate of employment growth in the growth points assumed that the growth of all divertible industries, whether small or large, can be wholly shifted off to the growth points. Industrial growth takes the form of investment in both new plants as well as in the expansion of existing ones; the latter expansion, for example, may consist of adding an extra machine to the existing ones in a given factory in the metropolitan centres. It is further possible that some divertible industries may have been operating at less than full capacity during the year which was used as a base for the above projections of the EDB. If this is true, it is likely that part of the above estimated increase of 20,000 manufacturing jobs will take place in existing plants in the metropolitan centres, rather than in the growth points.

Finally, some divertible industries may be tempted to lower their BWER's to the legal limit so as to avoid having to divert to the growth points. The net benefit from lowering the employment ratio and, consequently, from expansion in the metropolitan centres, may be found to exceed the benefit derived from an immediate diversion to the growth points. Industries

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19 See section (iv) below.

may lower their BWERs by the substitution of capital or White labour for Black labour. In the short run, however, the scope for such actions seems to be limited; it is indeed doubtful whether much capital can be substituted for Black labour within such a relatively short time as the 1973-79 period. Apart from the general shortage of skilled labour in South Africa, the number of unskilled White workers also seems to be too small to be substituted for Black workers on any appreciable scale in the metropolitan centres.[20]

The above arguments all suggest that our estimate of 20,000 manufacturing jobs may overstate the growth of Black manufacturing employment in the growth points. None of the arguments are really verifiable, however, and it seems reasonable to conclude that a maximum of 20,000 Blacks may be expected to obtain manufacturing employment in the growth points each year within the foreseeable future.

(iii) The Inter-homeland Distribution of Manufacturing Employment

More important than the total employment potential of the policy, is the question of whether employment opportunities are being created in the homelands in accordance with the relative size of the employment problem. And in Table 6.3 we provide information on the inter-homeland distribution of manufacturing jobs created for Blacks by decentralising industries and the Development Corporations. Columns 1 and 2 refer to the job opportunities created by decentralised industries in the border areas and interior growth points respectively. Column 3 contains

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20 See Pistorius, C.W.I.: "Die Rol van Bantoe-arbeid in die Randse Ekonomie," Volkshandel, November 1971, pp. 61-72.

Table 6.3 The Inter-homeland Distribution of Manufacturing Employment and the Increase in the Labour Force of the Homelands

| | Black job opportunities created by Decentralised Industries | | Black job opportunities created by the Development Corporations - 1973 | Columns 1 + 2 + 3 as percentage of the corresponding Homeland total | Increase in labour force as percentage of increase in total Homeland Labour Force |
|---|---|---|---|---|---|
| | Border Areas - up to end of 1971 | Interior Growth Areas - 1973 | | | |
| | 1 | 2 | 3 | 4 | 5 |
| Basotho-quaqua | 0 | 37 | 46 | .149 | .045 |
| Bophuthatswana | 14,785 | 1,776 | 2,293 | 33.741 | 10.515 |
| Gazankulu | 451 | 115 | 119 | 1.226 | 4.027 |
| Kwazulu | 10,570 | 592 | 597 | 21,044 | 30.425 |
| Lebowa | 4,071 | 149 | 432 | 8,325 | 15.436 |
| Swazi | 0 | 15 | 136 | .270 | 1.566 |
| Venda | 0 | 189 | 70 | .464 | 3.579 |
| Xhosa-Ciskei | 17,228 | 80 | 638 | 32.116 | 7.383 |
| Xhosa-Transkei | 0 | 875 | 615 | 2.666 | 26.622 |
| TOTAL | 47,105 | 3,828 | 4,946 | 100 | 100 |

Sources:

1 Lombard, J.A. and Van der Merwe, P.J.: "Central Problems of the Economic Development of the Bantu Homelands", Finance and Trade Review, Vol. 10, No. 1, June 1972, p. 40.

2 South African Institute of Race Relations : A Survey of Race Relations in South Africa 1974, Natal Witness, 1975, pp. 214 and 218.

3 Table 3.5.

information on the job opportunities created by industries owned by the Development Corporations.[21] In column 4 the sum of the estimates in columns 1, 2 and 3 is expressed as a percentage of the corresponding homeland total. If this is compared with the corresponding proportion of the increase in the total homeland labour force, some idea is obtained of the extent to which employment opportunities are being created in accordance with the employment problem in the various homelands.

The table shows that the growth of manufacturing employment, relative to the growth of the labour force, has been much greater in Bophuthatswana and the Ciskei than in the Transkei, Lebowa and Gazankulu. For example, whereas an estimated 34 per cent of the total number of manufacturing jobs has been created in Bophuthatswana, the corresponding estimate for the Transkei is only 3 per cent. This is notwithstanding the fact that the estimated increase in the Transkeian labour force is equal to 27 per cent of the increase in the total labour force of the homelands; the corresponding estimate for Bophuthatswana is only 11 per cent. It therefore follows that the growth of manufacturing employment in the homelands does not appear to take place in accordance with the relative size of the employment problem.

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21 It should be noted that, while column 1 refers to the period up to the end of 1971, columns 2 and 3 only refer to the single year of 1973. In the latter two cases, however, the estimates for 1973 constitute a relatively large proportion of the total number of job opportunities created by decentralising industries and the Development Corporations in the interior growth points.

Why has this particular spatial distribution of job opportunities emerged? Why have Bophuthatswana and the Ciskei benefited more from industrial decentralisation than the other homelands? It might be tempting to approach this problem on the basis of a regionally adapted neoclassical growth model; according to this model, interregional differences in income and employment are eventually eliminated by the fact that capital moves to the low-income regions and labour to high-income regions, in accordance with the relative prices of capital and labour.[22] In the real world, however, this does not happen. The price of capital does not appear to vary much over space, and while the same is not true of the price of labour, there is evidence which suggest that wage rates do not differ much between the homelands.[23] Furthermore, it is not at all certain whether interregional factor mobility is caused by interregional differences in factor prices; factor mobility may well be the cause of interregional differences in mobility costs, agglomeration economies and some non-economic variables.[24] It is therefore more likely that the answer to the above questions lies in the large differences in spatial

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22 See Borts, G.H.: "The Equalisation of Returns and Regional Economic Growth", American Economic Review, Vol. 50, 1960, pp. 319-347 and Borts, G.H. and Stein, J.L.: Economic Growth in a Free Market, Columbia University Press, 1964.

23 See Department of Planning and the Environment: Decentralisation-Growth Points, Chris van Rensburg Publications, 1974.

24 See Richardson, H.W.: Regional Growth Theory, MacMillan, 1973, pp. 25 and 89-103.

location which exist among the various growth points. This seems to be consistent with the recent emphasis placed on the role of space in the growth of a region: "The preoccupation with neoclassical models ..... have led to the neglect of space, distance and location - factors that may be of critical importance in explaining regional growth."[25]

In Table 6.4 an attempt is made to quantify some of the location factors which determine the relative attractiveness of the growth points. The table distinguishes between three indexes of location, namely (1) the distance and transport factor, (2) agglomeration economies and (3) the availability of physical infrastructure in the growth points. The first index is represented in rows 1 and 2 in which we give the distances between the growth points and the major markets of the Pretoria-Witwatersrand-Vereeniging (PWV) and Durban-Pinetown (DP) regions. It appears that most of the growth points serving Bophuthatswana are situated at distances of 100 kilometre or less from the PWV region. The growth points of Lebowa and Kwazulu are also situated at relatively small distances from the PWV region; in addition, Kwazulu's growth points all lie in proximity to the DP region. Accordingly, if the distances from the PWV and DP regions are assumed to be directly related to the transport costs of production at the growth points, it follows that any prospective decentralising firm would prefer to locate in Bophuthatswana, Kwazulu and Lebowa, rather than in the more distant homelands.

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25 Richardson, H.W., op.cit., p. 15.

Table 6.4. Locational Differences among the Growth Points

| | | | Basotho-Qwaqwa | | Bophuthatswana | | | | | Gazankulu | | Kwazulu | | | | | Lebowa | | | Ciskei | | | Transkei | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Harrismith | Witzieshoek | Rrits | Rustenburg | Mafeking | Zeerust | Babelegi | Phalaborwa | Tzaneen | Ladysmith | Newcastle | Richardsbay | Empangeni | Sithole | Pietersburg | Potgietersrus | Seshego | East London Berlin | King William's Town | Queenstown | Umtata | Butterworth |
| Index of Distance and Transport costs | Distance from PWV region | 1 | | | 48 | 104 | | | 40 | 498 | | 300 | 270 | 673 | | 645 | 286 | 227 | | 943 | 890 | | 852 | 909 |
| | Distance from DP region | 2 | | | 661 | 722 | | | 677 | 965 | | 248 | 360 | 200 | | 110 | 926 | 861 | | 648 | 720 | | 421 | 578 |
| Index of Agglomeration Economies | Border Area near average size White Town | 3 | X | | X | X | X | X | | X | X | X | X | X | X | | X | X | | X | X | X | | |
| | Interior Growth Point near average size White Town | 4 | | X | | | | | X | | | | | | | | | | X | | | | | |
| | Interior Growth Point | 5 | | | | | | | | | | | | | | X | | | | | | | X | X |
| Index of Availability of Physical Infrastructure | Proportion of Industrial Land presently being planned or still to be planned [1] | 6 | | | 0 | 0 | | | 0 | 67 | | 61 | 86 | 100 | | 100 | 64 | 100 | | 84 | 0 | | | 0 |
| | Average percentage of available electric power utilised 1972-1977 | 7 | | | 85 | 100 | | | 55 | 85 | | 100 | 85 | 59 | | 85 | 63 | 67 | | 80 | 82 | | 60 | 73 |
| | Percentage of water supply already taken up | 8 | | | 100 | 50 | | | 17 | 86 | | 100 | 42 | 12 | | 12 | 40 | 54 | | 84 | 40 | | 5 | 6 |

1 The proportion of industrial land presently being planned or still to be planned can be assumed to be more or less 100 per cent in growth points for which no such data are available.

Sources:
1 Department of Planning and the Environment, op.cit.
2 Lombard, J.A. and Van der Merwe, P.J., op.cit., p.40.
3 Financial Mail: Special Survey on Decentralisation, March 1975, pp. 34-40.

The latter conclusion may not be valid for all industries. Luttrell has shown, for example, that transport costs do not form a significant proportion of the total costs of a large number of manufacturing industries[26]; and in these cases transport costs are not likely to be an important determinant of location. There is also evidence that the marginal cost of transportation may diminish beyond a certain minimum distance.[27] These findings indicate that transport costs are not the only determinant of location, and in a number of studies attention has been drawn to the role of agglomeration or external economies in the location of an industry: "What matters more is the extent to which a firm can benefit from external economies in a particular location."[28]

Some indication of the relative size of agglomeration economies is given by the information shown in rows 3 to 5 of Table 6.4. This may be interpreted to indicate existing differences in market accessibility, the supply of skilled labour and the availability of raw and other materials between the various growth points. It is seen that, with few exceptions, most of the growth points are situated near average-sized White towns. The exceptions are mostly the interior growth points. Furthermore, the East London-Berlin growth point in the Ciskei is served by the relatively large metropolitan centre of East London, while Brits and Babelegi in Bophuthatswana are closely situated to the PWV region. The same is true to a lesser

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26 Luttrell, W.F., op.cit., pp. 72-75.

27 See McCrone, G., op.cit., pp. 54-55.

28 Ibid., p. 56.

extent of Rustenburg in Bophuthatswana and Sithebe in Kwazulu. On the other hand, there are only two relatively isolated growth points in the Transkei, while the homelands of the Venda and Swazi do not contain a single growth point. A similar pattern seems to emerge with respect to the availability of physical infrastructure in the homelands. In most growth points only a small proportion of the available industrial land has been fully planned; once again, the exception is Bophuthatswana where the planning of industrial land has been virtually completed.[29] We therefore conclude that these differences in location appear to provide a reasonably good explanation for the fact that Bophuthatswana, the Ciskei and, to a lesser extent, Kwazulu have all performed better in terms of industrial decentralisation than the other homelands.

(iv) Spatial Variation in the Financial Incentives

The above analysis raises an all important question : Are the present financial incentives sufficient to overcome the large differences in location between the growth points? There is little doubt that the financial incentives represent an attempt to eliminate the marginal excess costs of diversion to the growth points. The excess costs of diversion, as mentioned before, appear to be much higher in the first year of operation than in any subsequent year. Any difference in the initial excess costs between the growth points, is therefore likely to be an important factor in the determination of a location. And

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29 It is also true, however, that the growth points of the Transkei and Lebowa enjoy a relative ample supply of electricity and water.

it seems worthwhile to determine, even if only descriptively,[30] the extent to which the incentives succeed in eliminating these differences in excess costs during the first year of operation.

In Chapter 2 we gave a summary of the financial incentives which have been in existence since 1972.[31] Some of these measures have very recently been increased[32], and in Table 6.5 an outline is given of the incentives which are presently in operation at the various growth points. The most important ones are :

1. the granting of loans equal to 80 per cent of the value of the additional land and buildings in the border areas; in the interior growth points land and buildings are provided on a lease basis;
2. the granting of loans equal to 45 per cent of the value of the additional plant and current assets;
3. the reduction of the tax payable by an amount equal to 30 per cent of the value of the additional plant and current assets during the first year of operation; this amount may be spread over the first three years of operation; and
4. the reduction of the tax payable by an amount equal to a specified percentage of the total wage bill for Blacks during the first seven years of operation.

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30 Due to a lack of data, it is not possible to determine the actual excess costs of firms which have diverted to the growth points.

31 See p. 39 above.

32 See Decentralisation Board: Konsessies wat aan Nyweraars in Groeipunte aangebied word, Unpublished document, July 1975. See also Eastern Province Herald: "Big New Boost for Border Industries", 5 June, 1975, p. 11.

Table 6.5 The Financial Incentives Applicable at the Various Growth Points

| TYPE OF CONCESSION | Pietersburg Potgietersrus | Phalaborwa | Brits | Rustenburg | Richard's Bay | Ladysmith | Newcastle | Berlin | King Williams Town | East London | Kimberley | Rebelegi | Isithebe | Umtata Butterworth |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. LOANS AVAILABLE AND INTEREST RATES | | | | | | | | | | | | | | |
| (1) Land and Factory Buildings | Yes 1% | Yes 1% | Yes 5% | Yes 5% | Yes 1% | Yes 5% | Yes 5% | Yes 1% | Yes 2% | Yes 5% | Yes 4% | No | No | No |
| (2) Plant and current assets | do | do | do | do | do | do | do | do | do | do | do | Yes 5% | Yes 1% | Yes 1% |
| (3) Housing for White key personnel (in all cases 2% below the official building society rates) | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No |
| 2. PROVISION OF LEASED BUILDINGS AND RENTALS | | | | | | | | | | | | | | |
| (1) Factory buildings (in every case depreciation and insurance is incorporated | No | No | No | No | No | No | No | No | No | No | No | Yes 5% | Yes 4% | Yes 4% |
| (2) Leased houses for White key personnel (Lease charges are 2% of the cost of the accommodation) | No | No | No | No | No | No | No | No | No | No | No | No | No | Yes |
| 3. INCOME TAX CONCESSIONS The tax is reduced with an amount equal to the following percentages of: | | | | | | | | | | | | | | |
| (1) Wages for total additional Bantu Coloureds for the first seven years after establishment expansion | 40% | 40% | 20% | 20% | 35% | 20% | 20% | 40% | 35% | 30% | 20% | 20% | 50% | 50% |
| (2) Book value for income tax purposes of total additional manufacturing plant and current assets as at date of establishment expansion | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% |
| 4. CASH GRANT FOR MOVING COSTS (Reimbursement of actual costs for moving from the P.W.V. area only) | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 5. RAILAGE REBATES (On selective basis in respect of goods manufactured in the area) | Max 15% | Max 15% | No | No | Max 15% for 5 yrs | No | No | 15% | 15% | 15% | No | No | Max 15% | Max 20% |
| 6. REBATE ON HARBOUR DUES 25% (On goods manufactured in the area and shipped via East London to other South African Ports) | No | No | No | No | No | No | No | Yes | Yes | Yes | No | No | No | Yes |

Source:

1 Rhoodie, N.J. et.al. (eds.): Homelands - The Role of the Corporations, Chris van Rensburg Publications, 1974, p. 119.

2 Eastern Province Herald, op.cit.

These concessions appear to vary quite widely between some of the growth points. This is further shown in Table 6.6 where the growth points are grouped from A to F in accordance with the relative size of the incentives. The information in the table is based on a hypothetical example, quoted in a report of the Decentralisation Board,[33] of a firm locating in the growth point of Pietersburg. The value of the additional land and buildings is assumed to be R100,000 and that of the additional plant and current assets R700,000, at the time of establishment or expansion; these values are assumed to be the same irrespective of the growth point at which the firm locates.[34] It is also assumed that the firm employs 100 Black workers at an annual wage of R75,000 during the first year of operation. The table shows that the tax and interest concessions which are available to the firm, vary quite widely between growth points A and B on the one hand, and growth points C, D, E and F on the other. The same is not true, however, of either the variation between A and B or of that between growth points C, D and E; in both cases the variation in the concessions appears to be relatively small. But this does not enable us to say whether these variations are insufficient to offset corresponding variations in the excess costs of diversion; for this one needs to have information on the actual excess costs of firms which have diverted to the growth points - a task which is quite beyond the scope of the present study.

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33 See the previous footnote.

34 This assumption is largely forced upon us by a lack of data. Rather surprisingly, available data indicate that the price of industrial land is higher in the interior growth points than in some of the border areas. (See Financial Mail, op.cit.). The effect of this would be to diminish the estimated differences in the financial incentives between the growth points.

Table 6.6 The estimated value of the financial concessions at the various growth points

(R's)

| CATEGORY | A | B | C | D | E | F |
|---|---|---|---|---|---|---|
| GROWTH POINTS | Brits; Newcastle East London | Rustenburg; Ladysmith | King William's Town | Pietersburg; Potgietersrus; Berlin; Richard's Bay | Phalaborwa | Umtata; Butterworth |
| Interest and Rent Concessions on Land and Buildings | 1,200 | 2,800 | 3,600 | 4,400 | 5,200 | 4,500 |
| Interest Concession on plant and current assets | 4,050 | 9⅘,50 | 12,150 | 14,850 | 17,550 | 20,250 |
| Total interest and Rent concessions in first year of operation | 5,250 | 12,250 | 15,750 | 19,250 | 22,750 | 24,750 |
| Tax Concession on plant and current assets | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Tax Concession on total Wage Bill for Blacks | 15,000 | 15,000 | 26,250 | 30,000 | 30,000 | 37,500 |
| Total Tax Concessions in first year of operation | 40,000 | 40,000 | 51,250 | 55,000 | 55,000 | 62,500 |
| Total Interest, Rent and Tax Concessions in first year of operation | 45,250 | 52,250 | 67,000 | 74,250 | 77,750 | 87,250 |

Source:

Adapted from Decentralisation Board: Konsessies wat aan ....., op.cit., pp. 7-8.

We have already seen that labour-intensive industries are more greatly affected by the variation in the financial incentives than capital-intensive industries[35]; the reason for this lies in the relative importance of the tax concession on the wage bill for Blacks. It is doubtful, however, whether this concession is sufficiently differentiated over space to eliminate differences in the excess costs of diversion between the growth points. Inter-growth point differences in the tax concession on wages may well be offset by corresponding differences in the wage rate for Blacks; for example, the difference in the tax concession on wages between growth points F and the other growth points, will be reduced if, ceteris paribus, the wage-rate is lower in F than in the other growth points. For this we need to assume that firms will employ the same combination of production factors irrespective of the growth point in which they locate. It is also necessary to assume that differences in the wage rate are the result of factors other than differences in the marginal productivity of Black labour; in other words, it must be assumed that decentralising firms will employ the same number of Black workers irrespective of the place of location. Given these two assumptions, it is possible to determine the effect of differential wage rates on the financial incentives shown in Table 6.6. This is done in Table 6.7 which is different from Table 6.6 only with respect to rows 5, 6 and 7. In the latter rows allowance is made for existing differences in the wage rate for Blacks bet-

35 See pp. 123-124 above.

Table 6.7 The Effect of Differential Wage Rates on the Estimated Value of the Financial Incentives

| CATEGORY | A | B | C | D | E | F |
|---|---|---|---|---|---|---|
| GROWTH POINTS | Brits; Newcastle; East London | Rustenburg; Ladysmith | King William's Town | Pietersburg; Potgietersrus; Berlin; Richard's Bay | Phalaborwa | Umtata; Butterworth |
| Interest and Rent concessions on Land and Buildings | 1,200 | 2 800 | 3 600 | 4 400 | 5 200 | 4 500 |
| Interest Concession on plant and current assets | 4 050 | 9 450 | 12 150 | 14 850 | 17 550 | 20 250 |
| Total Interest and Rent concessions in first year of operation | 5 250 | 12 250 | 15 750 | 19 250 | 22 750 | 24 750 |
| Tax concession on plant and current assets | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 |
| Tax concession on total wage bill for Blacks | 21 429 | 17 143 | 33 750 | 30 000 | 42 857 | 32 143 |
| Total tax concessions in first year of operation | 46 429 | 42 143 | 58 750 | 55 000 | 67 857 | 57 143 |
| Total interest, Rent and tax concessions in first year of operation | 51 679 | 54 393 | 74 500 | 74 250 | 90 607 | 81 893 |

Source: See Table 6.6

ween the homelands; it appears that the average weekly wage of unskilled Black workers varies from about R10 in growth points A to R7 in growth points D and R6 in growth points F.[36]

Table 6.7 shows that the effect of differential wage rates is to reduce the difference in the total financial concessions between (1) growth points A and B and (2) growth points C.D. E and F. It is seen that during the first year of operation the concessions are highest in the growth point of Phalaborwa whereas, under the previous assumption of a spatially uniform wage rate, the concessions in the Transkeian growth points of Umtata dnd Butterworth exceeded those in Phalaborwa; similarly, Umtata and Butterworth now appear to be less attractive relative to the growth points of Pietersburg, Potgietersrus, Richard's Bay, Berlin and King Williams's Town. It therefore follows that differences in the tax concession on wages between the growth points, are considerably reduced if allowance is made for corresponding differences in the wage rate for Blacks.

The latter conclusion may partly explain why the interior growth points have not been able to attract industry on the same scale as the border areas; and a case may well be made for relating the tax concession to the number of Black employees, rather than to the value of the wage bill for Blacks. More generally, we have shown that differences in the financial incentives between most of the growth points appear to be small in relation to differences in the spatial location of the growth points.

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36 Department of Planning and the Environment, op.cit.

(v) Border Areas and the Growth Potential of the Homelands

Having analysed the rate and direction of industrial decentralisation in the homelands, it seems useful also to inquire into the induced or endogenous growth potential of the homelands; by this is meant the growth potential of local industries which are likely to be induced by such autonomous sources of income as White investment in the homelands, temporary migration and daily commuting. The value of such an inquiry stems from the fact that the growth of the homeland economies is largely dependent upon two potential sources of growth, namely migrant remittances and the development of the growth points. Many of these growth points are situated on the borders of the homelands in proximity to existing White towns and cities. The possibility therefore exists that part of the induced effect of investment in these growth points, may take place in the White towns and cities, rather than in the homelands; and if this is so, there is clearly a need to look into the social opportunity costs of the regional strategy to develop the border areas of South Africa.

It would be possible to estimate the induced growth potential of the homelands by means of a simple export base multiplier. The problem with this multiplier, however, is that it assumes that exports are the only autonomous determinant of regional income or growth. This is clearly an unrealistic assumption, and in many studies the autonomous base has been broadened so as to include such magnitudes as private investment, consumption and central government expenditure; in Appendix 2 it is shown how the simple model of the export base multiplier can be

transformed into a regional growth model which distinguishes more properly between the autonomous and induced proportions of total regional income. For present purposes, however, it is sufficient to define regional income in terms of its exogenous and endogenous components.[37] Let

$$Y = Yx + Yn$$

where Y represents gross regional income, Yx exogenous or autonomous income and Yn endogenous or induced income. If

$$Yn = a + bY \qquad (a, b \text{ constants})$$

$$\text{then} \qquad Y = \frac{a + Yx}{1-b}$$

$$\text{and} \qquad \frac{dY}{dYx} = \frac{1}{1-b} = k$$

where k stands for the economic base multiplier; an increase in Yx causes Y to increase by k times the increase in Yx.

Some recently released data[38] have made it possible to distinguish between two sources of exogenous growth in the homelands, namely (1) commuter income or income earned by persons who work on a daily basis in the White border areas, and (2) migrant income which is earned by persons who work on a contract basis in the White areas for a fixed period of time; both commuter and migrant income may be assumed to be exogenous in the sense that

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37 For a similar model see Tiebout, C.M.: "The Community Income Multiplier: a Case Study", in Pfouts, R.W. (ed.): The Techniques of Urban Economic Analysis, Chandler-Davis, 1960. See also Bolton, R.E.: Defence Purchases and Regional Growth, Brookings Institution, 1966.

38 These are presently being published in the Economic Reviews of the Bureau for Economic Research re Bantu Development, Pretoria.

they represent income earned from the export of unskilled labour to the White areas. The remaining part of the gross geographic income of the homelands consists of income earned within the territories. This is equal to the gross geographic product which is assumed to be endogenous inasfar as it is induced by changes in exogenous income.

It may be objected that exogenous and endogenous income, as defined, do not necessarily represent autonomous and induced income respectively. But exogenous income is, by definition, equal to autonomous income; there is no way that an increase in exogenous income can cause increases in the production or turnover of local industries, without it being reflected in an increase in the endogenous income of the homelands. Endogenous income, on the other hand, is not necessarily equal to induced income. It is quite possible that, within a given time period, part of the increase in endogenous income is autonomous. Investment in the interior growth points, for example, may be autonomous in the sense that it is determined outside the borders of the homelands. Similarly, some local activities may be totally unrelated to changes in exogenous income. These activities, which may be related to past changes in the gross geographic product, are autonomous and should be included in the autonomous base of the economies.[39] To the extent that this is the case, the economic base multiplier, as defined above, will overestimate the effect of a given increase in exogenous income on the gross geographic income of the homelands.

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39 See Appendix 2 below.

In Table 6.8 the exogenous income of the homelands is shown in columns 1, 2 and 3, and endogenous income in column 4. In column 6 we present estimates of the base multiplier for each of the homelands. Since we use data for two periods, the multiplier is a non-homogeneous linear estimator of the form

$$\frac{\Delta Y}{\Delta (Yc + Ym)}$$

where Y denotes the gross geographic income of the homelands, Yc commuter income, Ym migrant income and $\Delta$ the change between 1970-71 and 1973-74.

In the table a base multiplier of 1.284 is estimated for the homelands as a whole. This means that an increase in exogenous income of R1,000 will cause an increase of R1,284 in the gross geographic income of the homelands. Furthermore, with the exception of Basotho-quaqua, the multiplier does not seem to vary much between the individual homelands - from 1.202 in the Venda-homeland to 1.304 in the Ciskei. A rather surprising statistic is the lack of any direct relationship between the value of the multiplier and the geographic size of the homelands; the multiplier is relatively large in the small homelands of Basotho-quaqua, the Ciskei and Gazankulu, whereas in Lebowa, Kwazulu and Bophuthatswana it appears to be relatively small. But these differences are not very large, and it follows that the growth of the homeland economies, whether small or large, is heavily dependent upon the growth of the non-homeland or White economy. In terms of the assumptions of the economic base model, this is the same as saying that the induced growth potential of the homelands is very limited; increases in the gross geographic income are largely due to increases in exogenous income earned

from commuting and migration.

More important, it appears that the homeland economies have become increasingly dependent upon the White economy over the years. The exogenous proportion of the gross geographic income, for example, has increased from 52 per cent in 1960 to 73 per cent in 1974.[40] This was largely due to the phenomenol increase in the income earned from commuting during the same period; and the increase in commuter income is a direct consequence of the development of the border areas. A border area normally consists of a White town or city and a Black township which is situated just inside the homeland, e.g. Mdantsane near East London and Garankuwa near Pretoria. It is quite possible that the Black residents of these townships spend most of their income in the near-by White economy.[41] Any investment induced by the increased expenditure of these residents, is therefore likely to take place in the White towns and cities of the border areas, rather than in the Black townships. It is in this way that the border area policy, nothwithstanding its contribution to exogenous growth, limits the induced or endogenous growth potential of the homelands.

(vi) Border Areas, Border Townships and the Interior Growth Points

The latter conclusion indicates that the multiplier is probably very small in the homeland border townships (HBTs) because of a high propensity to import consumer goods from the near-by

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40 See the source listed at the end of Table 6.8.

41 See Best, C.G.: "South Africa's Border Industries : The Tswana Example", Annals of the Association of American Geographers, Vol. 61, No. 2, June 1971, p. 335.

White economy. This propensity is likely to be lower in the interior growth points (IGPs), all of which are situated at relatively long distances from the White economy; people in the IGPs are likely to buy relatively more goods from local Black businessmen than people in the HBTs. If we allow for secondary effects, however, this difference in the multiplier will be reduced by the fact that Black businessmen, whether operating in the IGPs or HBTs, probably import most of their stock of consumer goods from the White economy. But the difference will not be entirely eliminated. Even if all stocks were imported, the income of Black businessmen, and hence the income of the region, will still increase in a direct proportion to the mark-up percentages applied.

A further possible difference between the HBTs and IGPs lies in the import content of a given increase in autonomous expenditure.[42] The initial increase in income arising from a given investment, usually consists of the amount spent on the non-labour factors of production, the increase in wages, interest payments and the total profit. In a regional context, however, some of these amounts may "leak" out of a region, e.g. the purchasing of non-labour inputs outside the region, or the remitting of profits to other regions. It follows that an increase in autonomous regional expenditure is likely to be less than the corresponding increase in autonomous national expenditure. This may well be the case with investment in the border areas and IGPs.

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42 See Richardson, H.W.: Elements of Regional Economics, Penguin, 1969, p. 34.

There is little doubt that only the Black wage proportion of a given increase in autonomous expenditure in the border areas, accrues to the HBTs; and to a lesser extent, this may also be true of investment in the IGPs. Of more importance, however, is the effect that different ratios of capital to (the value of) labour may have on the import content of autonomous expenditure. If the latter ratio is lower in the IGPs than in the border areas, for example, then the import content of a given increase in autonomous expenditure will be lower in the IGPs than in the HBTs; and the resultant increase in income will, other things being equal, be larger in the IGPs than in the HBTs. This is obviously an empirical matter, for while there is evidence to suggest that the total investment per non-White worker is larger in the IGPs than in the border areas,[43] no such evidence exists with regard to the Black wage proportion of investment.

Similarly, it may be argued that the multiplier is larger, or potentially larger, in the IGPs than in the border areas because of the relatively low marginal propensity to save (and high propensity to consume) associated with labour-intensive industries.[44] But this difference, as well as the difference in the marginal propensity to import consumer goods, may well be offset by the fact that autonomous investment in the border areas is likely to induce further investment, providing more jobs and income to Blacks

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43 See Tables 5.3 and 5.4 above.

44 See Wilson, T.: "The Regional Multiplier - A Critique," Oxford Economic Papers, vol. 20, 1968, p. 387.

living in the HBTs.[45] It is thus possible that the increase in total homeland income will be greater if investment takes place in the border areas, than if it takes place in the IGPs; this is because the increase in exogenous income arising from a given investment in the border areas, will be greater than the increase in endogenous income arising from a similar investment in the IGPs. All this raises the possibility that the homelands may have to choose between two alternative strategies, namely one which promotes economic growth at the expense of economic independence, and one promoting economic independence at the expense of growth.

(vii) Conclusion

The past performance of the decentralisation policy has not been very satisfactory. The policy has only succeeded in providing an average of 7,000 Blacks with manufacturing employment in the growth points each year. Notwithstanding frequent changes in the policy, the latter figure has remained more or less unchanged since 1960. There is some hope for the future, however, in the fact that the financial incentives have very recently been increased by considerable margins; these increases are much more substantial than any similar increase in the past.

In this chapter we have shown that the number of manufacturing jobs for Blacks in the growth points may be expected to increase by about 20,000 jobs each year within the forseeable future. It is important to note that this estimate was based on a number of restrictive assumptions about the various disincentive measures.

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45 In this case the multiplier becomes a so-called super-multiplier. (See Wilson, T., op.cit., pp. 379-382).

In particular, we have defined the divertibility of industry in terms of the proportion of non-White labour to the total labour force. In reality, however, the divertibility of industry may well be determined on an ad hoc basis. For this and other reasons, the figure of 20,000 jobs should be regarded as a maximum estimate of the growth of manufacturing employment in the growth points.

It further appears that the growth of manufacturing employment is not likely to take place in accordance with the relative needs of the individual growth points and homelands. The spatial distribution of growth points and the availability of infrastructural services, together with the apparent lack of spatial variation in the financial incentives, all indicate that additional employment opportunities are more likely to be created in the White border areas than in the interior growth points. In addition, more jobs are likely to be created in Bophuthatswana, the Ciskei and Kwazulu than in the other homelands. This is so because of these homelands' existing scale of economic activity, as well as their proximity to the major metropolitan centres of the country. One of the more disturbing aspects of the policy is the fact that very little is being done to promote industrialisation in the Transkei - notwithstanding the fact that the increase in the labour force of the Transkei exceeds that of all the other homelands excepting Kwazulu.

Finally, it was shown that the development of the border areas has greatly contributed to the growth of the gross geographic income of the homelands; this is indicated by the increase in the relative importance of commuter income in the total income. At the same time, however, the border area policy has had a relatively limited rub-off effect on the domestic economies of the homelands, particularly on the growth of the

gross geographic product. There is reason to believe that a large proportion of commuter income is spent in the White towns and cities of the border areas, so that the multiplier effect of an increase in commuter income is likely to be felt in the White areas, rather than in the homelands. It seems therefore reasonable to conclude that, although the border area policy has provided a substantial additional source of exogenous growth to the homelands, it has also reduced the relative importance of endogenous growth in the homelands.

## GENERAL CONCLUSION

Over the years the development of the homelands has emerged as one of the main priorities of public policy in South Africa. This is reflected in the ever increasing amounts spent on homeland development, the expanding activities of the Development Corporations, the growing importance of the decentralisation policy and the establishment of the Government sponsored Bureau for Economic Research re Bantu Development. What really matters, however, is not the size or exterior decoration of the proverbial cake, but its ingredients and its distribution among the people for whom it was originally intended. In this study we have attempted to analyse the major components of the homeland development policy with a view to determining their effect on economic growth and the distribution of income in the homelands; our approach was, very briefly, to estimate the size of the development problem in the homelands and, thereafter, to assess the various economic strategies and policies which have been employed to solve this problem.

The employment problem was defined in terms of both the future growth of the homeland labour force as well as the adequacy of existing employment opportunities. In Chapter 3 we estimated that the male and female labour force of the homelands will increase by about 100,000 individuals each year between 1975 and 1985. Similarly, in Chapter 4 it was estimated that some 770,000 rural families, or 65 per cent of the rural population, are underemployed inasfar as they are not being

fully utilised in the agricultural sector of the homelands. Although many of these families may receive additional income from such sources as the informal sector and temporary migration to the White areas of South Africa, there is little doubt that the employment problem is, from a policy point of view, a pretty formidable one. But the employment problem is only one example of the general problem of underdevelopment. Other examples are the familiar ones of inadequate income, poor health and a lack of education, all of which are not easy to quantify. It must therefore be assumed that the employment problem provides at least an indication, if not exact measure, of the general problem of underdevelopment.

What is being done to alleviate the problem of underdevelopment in the homelands? Are the authorities going about their task in a socially and economically efficient way? To what extent are resources being allocated in accordance with the resource endowment of the homelands? These questions formed the subject of Section III, and it may be useful to give a brief summary of the major findings. These are as follows:

(1) As far as the <u>role of the public sector</u> is concerned, it appears that the Republican or White Government contributes by far the largest proportion of the homeland governments' total revenue - 85 per cent in the financial year 1973-74. In contrast, the individual homeland governments appear to be relatively free to allocate public expenditure in accordance with their own preferences. This may well explain why as much as R127 million, or 60 per cent of total public expenditure, was spent on such services as health, education and population settlement in 1972-73, while only R39 million or 18 per cent was spent on the development

of agriculture, mining, manufacturing and service industries; in this respect it is reported that the homeland governments are under great pressure to provide educational services to their people.

(2) The decentralisation policy has succeeded in providing an average of about 7,000 Blacks with manufacturing employment in the growth points each year. This compares rather unfavourably with the Decentralisation Board's corresponding annual target of about 20,000 manufacturing jobs. The reason for this shortfall lies in the fact that the financial concessions which have been in operation until recently, have not been sufficient to offset the difference in production costs between the metropolitan centres and the various growth points. Some of these concessions have recently been greatly increased, however, and it is possible that, given certain conditions, the present incentive and disincentive measures may succeed in raising the above figure to a maximum of 20,000 manufacturing jobs.

(3) Industries are more likely to decentralise to the border areas than to the interior growth points. This is so because of the proximity of the border areas to existing towns and cities in the White areas, the availability of infrastructural services and the fact that, notwithstanding obvious differences in transport, relocation and other costs, the financial concessions do not appear to discriminate sufficiently between the interior growth points and the border areas. For the same reasons, more industries are likely to decentralise to Bophuthatswana, the Ciskei and Kwazulu than to any of the other homelands. A similar pattern seems to emerge with regard to industries established by the Development Corporations. It therefore appears that the growth of manufacturing employment is not likely to take place in accordance

with the relative needs of the various growth points and homelands.

(4) The development of the border areas has made the homeland economies increasingly dependent upon the White economy. This is indicated by the fact that the proportion of commuter to total homeland income has increased quite substantially between 1960 and 1973-74. More specifically, it appears that a large proportion of commuter income is spent in those White cities and towns which are situated near-by the homelands. Any investment induced by the increased expenditure of commuters, is therefore likely to take place in the White areas, rather than in the homelands.

(5) The total current investment per additional manufacturing job for non-Whites appears to be much higher in the border areas than in the interior growth points. For the period 1971 to 1973, for example, the total private and public investment per additional job amounted to about R11,800 in the border areas, compared with R6,200 in the interior growth points. This is generally due to the fact that industries in the border areas tend to cater for the "capital-intensive" demands of White South Africa and the urban Blacks, whereas industries in the interior growth points specialise in goods and services for which there are a local demand.

(6) The employment potential of the Development Corporations' own industries appears to be even higher than that of decentralised White industries in the interior growth points. The total (current) investment per additional job of manufacturing industries initiated by the Corporations, was equal to R2,300 by the end of March 1973, compared to the corresponding estimate of R6,200 for decentralised industries in the interior growth points. The former

amount was spent in respect of such small-scale industries as grain mills, bakeries, meat processors, beer breweries, furniture and weaving.

(7) The informal sector is a greatly neglected policy area. This is especially true of the loans policy of the Development Corporations. According to this policy loans are made available to those businessmen who are able to meet certain standards of business behaviour, all of which appear to be similar to those pertaining to the formal sector of the White economy, e.g. security, training, business acumen and potential market size. This has led to the emergence of a relatively small number of large-scale service industries which are able to raise the price and limit the quantity of traded goods and services in the homelands. There is clearly a need for the active promotion of small-scale manufacturers and traders like tailors, artisans, repair workers, builders and petty traders. These industries do not only have a relatively high potential for employment, but they may also provide a more equitable service than the oligopolistic industries of the formal sector.

(8) One of the disappointing features of the policy is the slow progress which has been made with respect to agricultural development in the homelands. Past efforts have generally failed to raise the output per unit of agricultural land and to utilise available labour resources in the agricultural sector. This has largely been the result of a lack of capital- and labour-intensive techniques of production, the restrictions placed on the migration of homeland families to White South Africa and the resettlement of Blacks from the White areas to rural areas in the homelands; it has been estimated, for example, that the resettlement policy could have accounted for as much as 31 per cent of the increase in the total homeland population between 1960 and 1970.

All this indicates that there are a number of areas in which it would be possible to raise the overall performance of the homeland development policy. One such area is the resettlement policy. We have throughout argued for the abolishment of the resettlement policy as a means to relieve population pressure and facilitate economic development in the homelands. But more specifically, there is also a need to introduce more capital- and labour-intensive techniques of production in the agricultural sector of the homelands, e.g. irrigation, fertilizer and pesticides. Labour is the abundant factor and land and capital the scarce factors of production in homeland agriculture. Although it may be true that a more intensive use of labour requires a certain minimum quantity of capital, there is no reason why the amount of capital, in contrast with that of land, could not be increased by a re-allocation of public and other resources within the homeland economies. It follows that, broadly speaking, the most efficient type of investment would be that for which the ratio of land to non-land factors of production is smallest. Moreover, the development of agriculture should form part of a broader strategy to develop the rural areas of the homelands. In addition to agricultural development, such a strategy should include the promotion of health and educational services and small-scale manufacturing and service industries in the rural areas, particularly in the interior growth points.

As far as the decentralisation policy is concerned, it seems necessary that more resources should be allocated to the development of the interior growth points - by means of, for example, an increase in the financial concessions which apply to the interior growth points, and the development of the infrastructure by the Department of Bantu Administration and Development. This would,

first of all, raise the labour content of investment in the homelands inasfar as industries in the interior growth points use relatively more labour than industries in the border areas. Secondly, it would raise the total income of the homelands, as well as the endogenous proportion thereof, thereby reducing the homelands' dependence on the White economy. In view of the possible existence of a super-multiplier in the border areas, however, it is possible that a given investment in the border areas will raise total homeland income by more than would a similar investment in the interior growth points. But since the import propensity appears to be relatively high in the homeland border townships, the continued development of the border areas is likely to make the homeland economies even more dependent on the White economy.

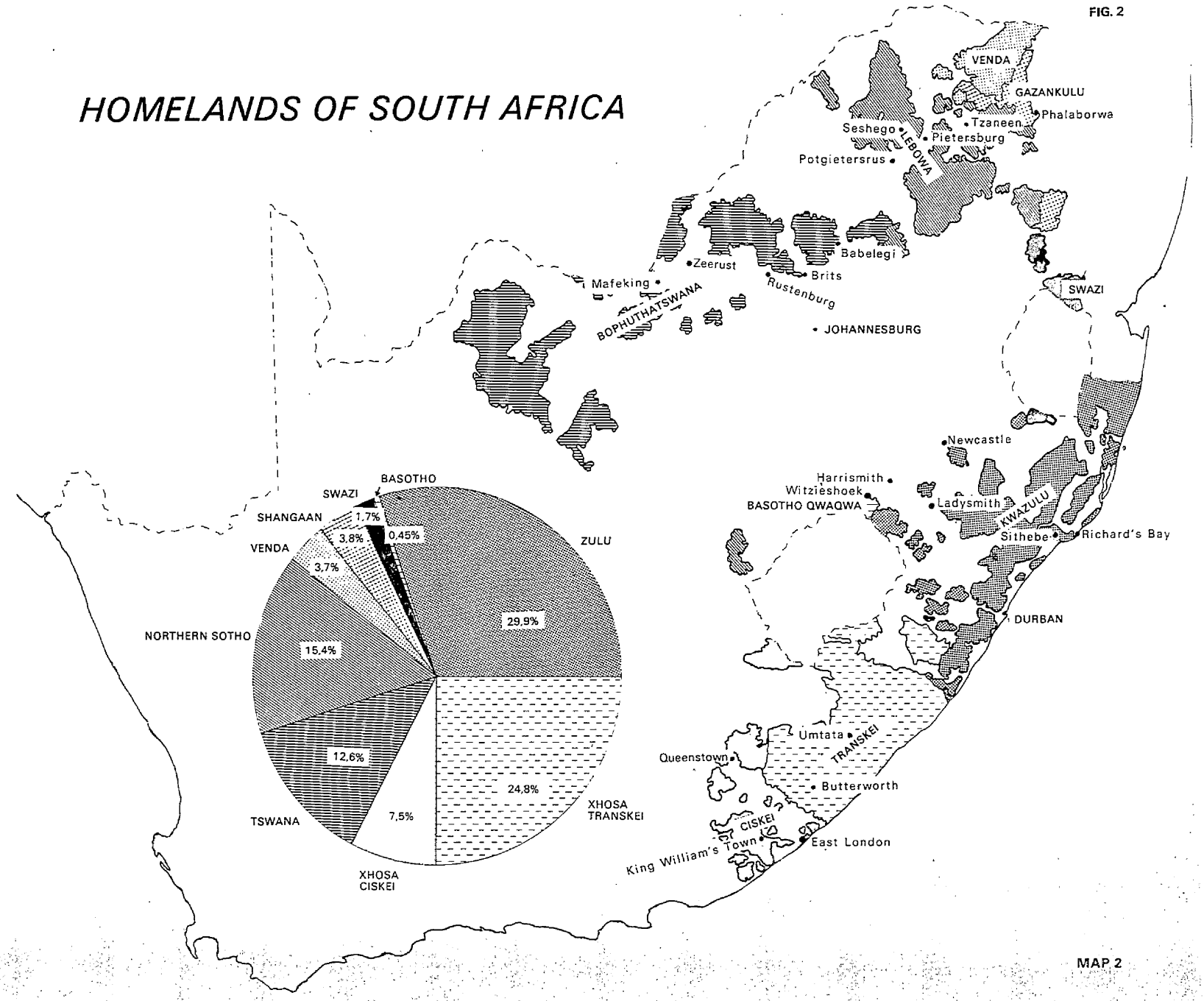
One way of overcoming this latter problem would be to redirect the multiplier effect to the homeland border townships. This may be done by the establishment of manufacturing industries in the homeland border townships, rather than in the near-by White cities and towns. These industries shuuld preferably specialise in the production of those goods for which there are a local demand, and which are relatively scarce in the border area concerned. Some thought should further be given to the idea of allowing White service industries to establish or expand in the homeland border townships; this should be done on a strict agency and profit-sharing basis, for else the multiplier effect of an increase in expenditure in the homeland border townships would be negligible. Similarly, an attempt should be made to develop and promote informal sector activities in the homeland border townships. These measures would not only lower the prices

of goods and the travelling costs of consumers in the homeland border townships, but they would also succeed, especially in the long run, in raising the endogenous growth potential of the homelands.

Finally, it is often argued that the success of economic policy depends, in the final analysis, on whether the people are prepared to change their social customs and perceptions in accordance with the specific demands of the policy in question. This may also be true of the homelands. But there is a further condition for the successful development of the homelands. The policy will not succeed unless the Whites, and particularly the White policy-makers, are prepared to change their own brand of tradition, perception and social prejudice in accordance with the specific demands of the people in question; for what is needed is the introduction of redistributive health and educational programmes, the allocation as well as re-allocation of resources to the development of agriculture and the interior growth points and, more generally, the promotion of those industries which would make the greatest contribution to the social welfare of the people of the homelands. If this is not done, it is this writer's belief that his own generation will some day look upon the development of the homelands as yet another attempt to further the aims, influence and ideology of the White man in Africa.

FIG. 2

# HOMELANDS OF SOUTH AFRICA




MAP 2

## Appendix 2 An Economic Base Growth Model

The export base theory asserts that a region grows because of the growth in its exports, and that increased demand external to the region constitutes the dominant determinant of regional economic growth.[1] An increase in the demand for a region's exports usually induces an increase in investment in both export and local (e.g. service) industries, so that the region's income or employment grows by some multiple of the initial increase in exports.

Estimates of export base multipliers represent an attempt to quantify the causal relationship between exports, which are defined as autonomous, and total regional income or employment. The multiplier is the smaller the larger is the magnitude of such leakages as (induced) imports from outside the region, non-local tax payments, hoarding and the outflow of share and other forms of capital. These leakages are, in turn, dependent upon the size of the region, its spatial location vis-a-vis other regions and the diversity of production relative to that of demand. We may define the export base multiplier by setting

$$Y = C + I + X - M$$

where Y represents regional income, C consumption, I investment, X exports and M imports.

$$\text{If } C = cY^d ; \quad I = iY^d ; \quad M = mY^d$$

$$\text{and } Y^d = Y(1 - s) \qquad (c,i,m \text{ and } s \text{ constants})$$

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1 For a detailed explanation of the theory see Sirkin, G.: "The Theory of the Regional Economic Base," Review of Economics and Statistics, vol. 41, 1959, pp. 426-9.

such that $Y^d$ represents disposable income and s the private and public sectors' average or marginal propensity to save,

$$\text{and} \quad X = \overline{X} \quad \text{(autonomous)}$$

$$\text{then} \quad Y = \frac{\overline{X}}{1 - (c+i-m)(1-s)}$$

$$= kx \ \overline{X}$$

where kx stands for the export base multiplier.

It should be noted that this multiplier implicitly allows for forward and backward linkages between industries within the same and other regions; that is, kx represents an inter-industry matrix multiplier. This is so because the price or sales value of all items of regional expenditure is (implicitly) assumed to include the value added to factors of production used in all previous stages of production.[2] Furthermore, the export base multiplier can be easily transformed into a more comprehensive interregional multiplier by expressing each region's exports in terms of the other regions' imports.[3] But this would unnecessarily complicate the exposition of the model, and in any case it has been shown that the interregional multiplier does not appear to differ much from the ordinary export base multiplier.[4]

The major criticism brought against the export base theory relates to the apparent unrealistic nature of the assumption that

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2 See Steele, D.B.: "Regional Multipliers in Great Britain," Oxford Economic Papers, vol. 21, 1969, pp. 268-292.

3 See Richardson, H.W.: Regional Economics, Camelot Press, 1969, Chapter 10.

4 Brown, A.J. and Associates: "Regional Multipliers," in Richardson, H.W.: Regional Economics : A Reader, Macmillan, 1970, p. 71.

exports are the only autonomous variable of regional economic growth. It is quite possible, for example, that a region may grow as a result of investment undertaken by entrepreneurs who expect an (autonomous) increase in the local or intra-regional demand for their goods and services. Similarly, regions may grow because of an increase in factor productivity brought about by factors other than the external demand for their products, e.g. technological innovations.

The well-known debate between North and Tiebout centred around the relative contributions made by external demand and intra-regional growth variables to the economic growth of a region. Tiebout[5] maintained that the growth in the export base of a region depends on the ability to produce at relatively low costs. This is, in turn, closely related to the ability to utilise available resources in the local economy. "Without the ability to develop residentiary activities, the cost of developing export activities will be prohibitive."[6] North, on the other hand, took a rather longer run view of the matter by arguing that any expansion in residentiary activities constitutes, in effect, investment which is induced by the long-run growth of the export base. Residentiary activities, it was argued, depend on the level of income in the region which is an (original) function of income levels outside the region.[7]

The difference between North and Tiebout's views is one of emphasis which could have been substantially reduced if both had

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5 Tiebout, C.M.: "Exports and Regional Economic Growth", Journal of Political Economy, vol. LXIV, 1956, pp. 160-164 and 169.

6 Ibid, p. 162.

7 See North, D.C.: "Location Theory and Regional Economic Growth", Journal of Political Economy, LXIII, 1955, pp. 243-258.

concerned themselves more with time period analysis and the proper definition of the region. Using time period analysis, Hartman and Seckler[8] recently showed that some local or residentiary activities could be a function of past changes in regional income, rather than of regional exports. Whether or not such income changes have been previously induced by autonomous increases in exports, is not at all relevant to the assessment of the short-run determinants of regional growth.

Furthermore, the essential point of the theory is the fact that economic growth is determined by comparative resource advantages and, from the point of view of the region, by the spatial distribution of such advantages within and between arbitrarily defined regions. It follows that, given a certain spatial distribution of comparative resource advantages, interregional as opposed to intra-regional trade becomes less important the larger is the region in question; this is indeed the single most reliable prediction which emerges from the theory. More specific predictions, such as the relative degree of resource utilisation, would normally depend on the availability of regional data.

It must therefore be assumed that regional economic growth is initiated by a variety of factors, whether they be demand or cost orientated, which may be located either within or without the region. This may be illustrated by broadening the base in the above export base model. Let

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8 Hartman, L.M. and Seckler, D.: "Towards the Application of Dynamic Growth Theory to Regions", Journal of Regional Science, vol. 7, 1967, pp. 167-173.

$$C = (c-u)\,Y^d + u(\Delta Y^d)$$

$$I = (i-v)\,Y^d + v(\Delta Y^d)$$

and $$M = (m-w)\,Y^d + w(\Delta Y^d)$$

where $\Delta$ denotes the past level of income, or past changes in the level of income.

$$\text{then } Y = \frac{\bar{X} + Y^d(u+v+w)}{1 - (c+i-m-u-v+w)(1-s)}$$

$$= ko\,(\bar{X} + Y^d(u+v+w))$$

where ko represents the so-called economic base multiplier.

The difference between kx, the export base multiplier, and ko depends on the size of the autonomous proportion of local income-generating activities. For example, from the last equation it follows that

$$Y = ko\,\bar{X}\left[1 + \frac{Y^d(u+v+w)}{\bar{X}}\right]$$

$$\frac{Y}{\bar{X}} = ko\left[1 + \frac{Y^d(u+v+w)}{\bar{X}}\right]$$

since $$\frac{Y}{\bar{X}} = kx$$

$$ko = \frac{kx\,\bar{X}}{\bar{X} + Y^d(u+v+w)}$$

and $$ko < kx \quad \text{if} \quad Y^d(u+v+w) > 0$$

which simply means that an economic base multiplier, which is based on exports as well as the intra-regional sources of autonomous growth, can be expected to be smaller than the simple export base multiplier. For reasons already mentioned, this is especially true in cases where time period analysis is used to explain and predict the growth of relatively large regions.

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## SUMMARY

In this thesis an attempt is made to evaluate the policy of homeland development in South Africa. The thesis is divided into three sections: section I looks at some of the major institutional and other changes that have been made during the recent past; section II is devoted to an analysis of the employment problem; and section III identifies the basic causes of the development problem and assesses the economic strategy and policies that have been employed to overcome the problem.

In section II the employment problem is defined in terms of both the future growth of the homeland labour force as well as the adequacy of existing employment opportunities. The male and female labour force is estimated to increase by about 100,000 individuals each year between 1975 and 1985. In addition, it is estimated that some 770,000 rural families or 65 per cent of the total rural population, are underemployed in the sense that they are not being fully utilised in the agricultural sector of the homelands. Although many of these families may receive additional income from such sources as the informal sector and temporary migration to the White areas of South Africa, there is little doubt that the employment problem is, from a policy point of view, a pretty formidable one. It does not follow, however, that the provision of jobs to each new entrant and underemployed family will by itself solve the development problem; there is also an urgent need to raise income and to provide more health and educational facilities in the homelands.

The main purpose of section III is to determine whether resources are being utilised in accordance with the relative resource endowment of the homelands. This is done both within a development as well as regional context. As far as the former is concerned, there seems to be

a general need to promote small-scale manufacturing and service industries which use relatively labour-intensive techniques of production. This is especially true of the agricultural development policy, the decentralisation policy and, to a lesser extent, of the loans policy of the development corporations. From a regional point of view, it appears that the growth of manufacturing and other employment opportunities is not likely to take place in accordance with the relative needs of the individual homelands. This is because existing differences in the financial concessions are not enough to offset the corresponding differences in the costs of production between the various growth points and homelands. More generally, the growth and employment potential of the homelands appear to be limited by the fact that many of the growth points are situated on the borders of the homelands in proximity to existing White towns and cities. The effect of this is that part of the induced effect of investment in the growth points tends to take place in the White towns and cities, rather than in the homelands.