1. Introduction

Stuart Jones

By 1970 the South African economy had experienced two decades of vigorous growth. The mining sector had declined in relative importance, notwithstanding the development of new gold mines in the Free State and the Far West Rand, as manufacturing industry set the pace, protected by tariffs and import controls. South Africa’s manufacturing base widened and deepened considerably in the two decades prior to 1970. Agriculture, too, had experienced far-reaching changes, as grain growing was modernized with the introduction of tractors, combine harvesters, chemical fertilizers, irrigation and the building of huge grain silos. Pig and poultry production was also mechanized at this time.

In the financial sector the beginnings of a local money market took shape with the founding of the country’s first merchant banks and discount houses, supported by an expansion of instalment finance houses, new insurance companies and a new American-type bank. Transport stood out as the laggard in 1970.

Admittedly there was some cause for alarm on the political front. However, in 1970, this did not appear to be insuperable, despite the arrival of large numbers of new African states at the United Nations. In other words, in 1970, there was cause for optimism on the part of both business and the authorities – an optimism that reflected the economic successes of the two previous decades and which had been underlined by the arrival of two new London-based merchant banks in 1969.

What happened after 1970 did not live up to the expectations of that year and the title of the book has accordingly been adopted to reflect these realities and to counter the ‘media-hype’ about an African renaissance. The harsh fact is that in real terms per capita GDP in 2000 was lower than it was in 1970.

After experiencing vigorous growth in the third quarter of the twentieth century, the South African economy went into a decline in the fourth quarter. This decline was halted in 1994, but recommenced in 1998 and, despite the ending of sanctions and an inflow of aid, the economy has not been able to recover to the level of 1970. Economic well-being is measured by per capita incomes, not aggregates. China and India have large aggregate incomes, but low per capita incomes, which are the driving force behind market growth and diversification.
The decline of the South African economy

This economic failure was revealed in the collapsing value of the rand. In 1970 the rand had already begun its long depreciation against the dollar, but this was concealed in the 1970s by the rise in the gold price. This insulated the rand from the full effects of developments in the domestic economy and led to the rand being overvalued throughout the 1970s. When the gold price began to decline in 1980, this artificial prop was removed and the currency began to reflect more accurately developments taking place within the South African economy. By the end of 2000 the rand, which had been worth £0.58 in 1970 was worth a mere £0.09 in 2000. The market had picked up the economic decline taking place in South Africa long before the media and politicians were aware of it.

The failure of the South African economy in the last quarter of the twentieth century does not mean that dramatic changes did not occur in some sectors of the economy. They did, in mining, finance and transport, but together the growth in these sectors was not sufficient to counterbalance the growth in population and the failure of manufacturing to act as the engine of growth. Traditional agriculture, with its communal ownership of the land and private ownership of animals, continued to pose a threat to the environment.

The triggering mechanism and immediate cause of this economic failure were sanctions combined with increased military expenditure, but the real long-term causes were the population explosion and the failure of the manufacturing sector to maintain its growth after 1970. Between 1970 and 2000 the population more than doubled from just over 19 million to just over 44 million. With limited water resources and a small tax base, population growth of this magnitude presents a time-bomb ticking away that will, one day, result in disaster, if it is not halted. This of course is an African phenomenon. No African government has had the courage to acknowledge the gravity of the problem, let alone adopt a population policy, or encourage birth control. Indeed, leading figures continue to beget large families and present themselves as role models to their followers. Admittedly the rate of growth of the population is slowing down, but it is still too high. Meanwhile the media gives vent to worries about an AIDS-induced population decline, at a time when the real problem is unemployment as a result of population growth. Over half the population is below 17, so that the number of entrants to the labour market is going to increase for many years to come, even if the birth rate should drop significantly in the new century. It is this extraordinary increase in population growth that is the driving force behind the growing poverty in Africa. Not only has this development been ignored by African politicians, but they have compounded the disaster by trying to impose ‘First World’ social policies on to a ‘Third World’ economic base. These social factors, together with aggressive trade unions, made it difficult for South Africa in the 1990s to experience secondary sector-led growth along the lines of South Korea,
Taiwan or China, but the roots of the decline in manufacturing, as Trevor Bell and Nkosi Madula show, go back to the decade from 1965 to 1975, when the annual growth rate of manufactured value added fell rapidly at a time when the foreign exchange value of the rand was appreciating. High minimum wages (compared with Asian competitors), combined with low productivity, has led to all three sectors of the economy shedding labour in the 1990s. Moreover, in the case of manufacturing the ‘First World’ labour legislation was imposed on a sector that had for generations been sheltered from the full force of international competition – the price paid for industrializing behind tariff barriers via the import-substitution route. India and Australia have followed similar paths and they, too, have had difficulty in developing internationally competitive manufacturing industries.

High taxation in South Africa has exacerbated the difficulties facing entrepreneurs. In 1970, South Africa was a low-tax country, but the demands of military and homeland expenditure, coming on top of the massive infrastructure spending in the 1970s, quickly led to double-digit inflation that brought an end to the era of low prices and low taxes. It is easy to forget that South Africa still had a penny post in 1970! High taxation had the effect of shrinking the domestic market and retarding capital accumulation in the hands of companies at a time when public sector borrowing was raising the price of capital. The cosy monopolies that dominated the South African economy had little incentive to raise productivity and fight for export markets, when the rand price of both primary products for export and manufactured imports kept increasing, which the government ensured by depreciating the rand.

Bell and Madula’s chapter on manufacturing provides the key to understanding the economic failure that occurred in the last three decades of the century. Moreover, despite the fact that mining, in Rostovian terms, experienced three consecutive leading sectors, gold in the 1970s, coal in the 1980s and platinum in the 1990s, declining gold exports, together with the failure of manufacturing industry to raise productivity significantly, made the goal of trade-led growth unattainable. Deteriorating terms of trade made the task of primary producers more difficult, but they were not the major cause of the difficulties of the developing economies in the last quarter of the twentieth century any more than they were in the last quarter of the nineteenth century – a period of rapid growth of the international economy. While the tiger nations of East Asia were experiencing export-led growth, in South Africa, between 1970 and 1999, GDP grew faster than external trade. While there is no single cause for the failure of manufacturing to lead South Africa into sustained economic growth, it is likely that government politicians were primarily responsible for it.

Macroeconomic monetary and fiscal policies, discussed by P.D.F. Strydom, were often contradictory and harmful. Other policies were more directly
The decline of the South African economy

damaging at the microeconomic level. Influx control policies and job reservation pushed up wages in the urban areas and decentralization policies, together with the railway monopoly of long-distance transport further added to manufacturers’ costs and, as Nick Vink and Stefan Schirmer show, the government’s policies towards agriculture were costly, discriminating and harmful. It is, though, debatable whether the future of grain growing lies in small family farms. The recent experience of both North America and the European Union would suggest the opposite. In transport, too, when the costly and inefficient railway monopoly ended in the 1980s, it was replaced, as Trevor Jones has explained, by an almost laissez-faire attitude towards road transport, that led to the taxpayer subsidizing commercial road transport users and the neglect of minor roads. In manufacturing, despite the lip-service paid to globalization and official support for the World Trade Organization, protectionist feelings were never far from the surface. Outright support for autarky was presented in the guise of ‘Buy South Africa’ campaigns. Misguided policies were behind the failure to invest in primary and secondary education, which reduced the flow of skilled workers and raised labour costs. Import controls, determined by bureaucrats and supported by tariffs, reduced competition at home and further added to costs. Throughout these years too, exchange controls were exerting their baleful influence upon the economy. It is no exaggeration to say that the South African economy grew despite the government policies and not because of them in the last three decades of the twentieth century.

The reason for beginning this study in 1970 rather than in 1975, the date after which real per capita incomes declined, is that 1970 was the peak year of gold output. Although the value of gold output increased with the rise in price, giving the appearance of prosperity, the long-term decline had begun, which has diminished South Africa’s role in the international economy.

Gold mining was no longer the country’s major engine of growth in 1970 – it had been overtaken by manufacturing many years earlier – but it underpinned the balance of payments and provided South Africa with a readily acceptable trading commodity. Gold provided South Africa with influence in world economic affairs greater than warranted by the country’s size. The beginning of the long decline in output, therefore, marked a watershed in the country’s economic and political fortunes, though this was not apparent until the 1980s, when the gold price rise reversed and began its long decline.

Double-digit inflation also featured in this period. While, in 1973–74, this was primarily exogenous, initiated by the unparalleled rise in the price of oil, it very quickly became endogenous. In other words the chronic inflation, from which South Africa suffered for over 20 years, was the result of developments within South Africa. Government policies were primarily to blame, but they were exacerbated by the existence of local monopolies and relatively
uncompetitive conglomerates. As Philip Mohr observed at a University of South Africa Economics Seminar, the oil price rise hit Japan harder than South Africa and led to a rapid increase in prices that lasted for one year, during which the Japanese economy adapted and absorbed the cost increases, thereby bringing inflation to an end. This kind of adaptation never occurred in South Africa, despite the presence of plentiful supplies of coal and the capability of producing oil from coal. In the 1970s the authorities in Pretoria embarked on a number of ambitious and costly infrastructure projects that were reinforced by massive military expenditures. Heavy government borrowing followed and budget overruns became normal. The depreciation of the currency was a consequence of these policies. When the military expenditures declined in the mid-1990s with the change in government, inflation also began to decline, but by then enormous damage had been done to the economy. Saving of all kinds had been discouraged. Saving was not a rational economic practice when prices were rising faster than interest rates. Not surprisingly gross savings as a proportion of GDP fell rapidly and the savings ratio to disposable income collapsed to a mere 0.8 per cent in 1999. Most of the collapse came after 1993.

By 2000 the economy was more dependent than ever on foreign direct investment to finance its development, while consumers were increasingly dependent on credit to sustain their lifestyles.

Finally, a word of caution about South African statistics. The figures for the population are controversial and it has been argued that both distant rural areas, such as Kwa Zulu and the Transkei, have been undercounted, as well as densely crowded areas such as Soweto and Alexandria in Johannesburg. In the last census the writer does not know a single person who received a census form that was collected! Statistical adjustments were made to take account of omissions, but it does raise questions about the accuracy of per capita statistics. Doubts have also been cast about the accuracy of the inflation statistics, with critics arguing that they too have been understated. In 1999 the consumer price index fell markedly, but much of this was the result of mortgage rates coming down from the previously extraordinarily high levels. A very high weighting is given to mortgage interest in the index. Yet most South Africans are not buying houses on bonds so that such weightings skew the index. The owner of a large confectionary and bakery business told the writer that the cost of his inputs in 2000 had risen by 16 per cent. Economists have to rely on the published statistics, but these need to be read with caution.

Between 1970 and 2000 very considerable changes took place in the South African economy. The mining sector was transformed by the decline in gold and the rise in platinum and coal. Transport, too, was changed out of all recognition by the arrival of motorways, container ships and the decline of the railways. In finance, ownership changed among the banks, as the foreign banks disinvested, and consolidation took place among the insurance
The decline of the South African economy

companies. In the 1990s globalization appeared to embrace South Africa, with the turnover on the Johannesburg Stock Market rising astronomically supported by a boom in unit trusts and asset managers. Yet manufacturing had failed to lead the economy into sustained economic growth and, by 1970, South Africa had become a country of high prices, high taxes and low incomes – a very different situation from that in 1970.