# 1 Setting the context: South Africa in international perspective

## A unique historical endowment

The special character and course of South Africa's economic history was profoundly influenced by its unique endowment of human and natural resources. This created the context within which individuals, ideologies, and institutions shaped the precise outcomes. Other countries possessed one or two of these distinguishing features, but only in South Africa were all of them present together, and it was this combination which proved to be so powerful. The first of these features was that large numbers of Khoisan and Africans already occupied the southern part of the African continent long before the first Europeans arrived from Holland in the second half of the seventeenth century with the intention to settle. There is no basis for an accurate estimate of the size of this population, but a figure of about 1,500,000 may serve as a rough order of magnitude for the beginning of the nineteenth century (see Annexe 1 for an account of the available information on population size). A century later it was close to 4,000,000. The presence of this substantial, and increasing, indigenous population differentiated South Africa from four other regions of European settlement, the United States of America, Canada, Australia, and New Zealand.

The second decisive feature of South Africa's population was the presence from the nineteenth century onwards of large numbers of European settlers. When the Dutch East India Company originally sent Jan van Riebeeck to establish a base at the Cape of Good Hope in 1652, the intention was simply to enable the Company's ships 'to refresh themselves with vegetables, meat, water and other necessities' en route to the East Indies. However, the Company needed greater supplies than a handful of soldiers and sailors could produce from the gardens in Cape Town, and the Directors were soon persuaded to allow a small number of volunteers to settle in the hinterland of the port on a permanent basis. Their task was both to grow wheat and other grains, and to breed cattle and sheep. By the time the period of Dutch rule over the Cape ended in 1806, the European population numbered about 27,000.

After control of the colony passed to the British, the process of settlement, and of movement into the interior, gained momentum, encouraged by the temperate climate and absence of tropical diseases. By 1865 the total white population of the two British colonies of the Cape and Natal and the two Boer republics of the Orange Free State and the Transvaal had reached 250,000, and by the beginning of the twentieth century it had climbed above 1,100,000 (see Table A1.1 in Annexe 1). The settlement of Europeans on this large scale differentiated South Africa from most of the rest of Africa, and from India and most other parts of Asia.

From the outset there was a fundamental division between these two groups of people – the original black majority and the new white minority – with massive and enduring implications for those who would come to own the land, water, and other resources, and those who would supply the manual labour. When conflicts between them were determined by force, whites possessed superior weapons, mobility, and organization; when they were determined by legislation, whites alone possessed the right to vote (except for the relatively few black people who qualified under the Cape franchise) and to be a member of parliament.[1]

The third special feature was not immediately apparent, but it was eventually found that the country possessed rich mineral resources, in particular gold. This mineral wealth differentiated South Africa from other regions of European settlement with large indigenous populations, notably those in Latin America. Some of these countries had other minerals, such as silver, tin, and copper, but what gold there was could not be compared with the vast quantities found in the Transvaal.[2] Prior to the discovery of this mineral wealth, South Africa was a relatively backward economy, almost entirely dependent on agriculture. But most parts of the country lacked the rainfall and other requirements for prosperous

[1] The two Boer republics explicitly prohibited black people from participation in their assemblies, and Natal did so de facto. There was no such barrier in the constitution introduced in the Cape from 1854, but no black person was ever elected to the old Cape Parliament. Under the 1910 Act of Union, the Cape franchise was preserved for those adult black males who met the education and property qualifications, but they could not become members of the Union Parliament. In 1936, Africans in the Cape were removed from the common electoral roll for the parliament, and twenty years later Coloureds and Indians in the province were similarly deprived of the vote.

[2] Substantial alluvial gold deposits were mined by slaves in Brazil from the mid-1600s, but these were largely exhausted by the late eighteenth century. Mexico took over as the largest source of gold in Latin America in the twentieth century, but output in 1913 was only 11 per cent of South African production, and by 1938 the proportion had fallen to 8 per cent.

farming. (A more detailed description of environmental conditions is given in Annexe 2.) Markets were small, conditions difficult, and progress slow; this applied equally to the economy of the original inhabitants and to that developed in the eighteenth and early nineteenth centuries by the European settlers. The situation was then totally transformed by the discovery of diamonds and gold in the late nineteenth century. From that point forward the economic history of South Africa becomes, in essence, a story of how this unique combination of the indigenous population, European settlers, and mineral resources was brought together in a process of conquest, dispossession, discrimination, and development to promote rapid economic progress.

## The economy in an international perspective

Before we proceed to survey South Africa's history of economic development, it will be helpful to place the country's performance in an international perspective. For the period before 1870 there are no data on overall growth, but such indicators as are available – for example, for trade and immigration – typically showed the country in a relatively unfavourable light when compared with other areas of British settlement. In the 1860s, for example, total exports from South Africa averaged only £2,500,000 per annum, whereas those from Canada amounted to £8,000,000 and Australia's had already reached £19,000,000. By 1870, almost 1,000,000 immigrants had gone voluntarily from the United Kingdom to Australia and roughly 500,000 had settled in Canada. The numbers leaving for South Africa were too small for the United Kingdom authorities to record separately, but there were probably fewer than 100,000 before 1870.

After 1870 growth accelerated, though there is still no overall measure of this. However, we can take the level of total output (gross domestic product – GDP) per capita in 1913 as an indicator both of the progress made since the economic revolution of 1870s and of South Africa's relative international position on the eve of the First World War. All data are taken from the study by Angus Maddison, in which every country's GDP is measured on a comparable basis in 1990 international dollars.[3] For the

[3] A. Maddison, *The world economy: a millennial perspective*, Paris: OECD, 2001. Maddison converted estimates of GDP in national currencies in 1990 to international dollars on the basis of purchasing power parities, with individual countries weighted on the basis of their relative GDP. He then extrapolated these estimates back to 1913 (or earlier years) by means of national series for GDP. For South Africa, the population figures underlying Maddison's per capita GDP estimates were adjusted to agree with those given in Table A1.2 in Annexe 1.

Table 1.1. *Countries comprising a sample of thirty comparable market economies*[a]

| | | |
|---|---|---|
| **Africa** (six) | **Europe** (seven) | **UK dominions** (three) |
| Algeria | Austria | Australia |
| Egypt | Finland | Canada |
| Ghana | Greece | New Zealand |
| Morocco | Ireland | |
| Nigeria | Italy | |
| South Africa | Portugal | |
| **Asia** (eight) | Spain | |
| Indonesia | **Latin America** (six) | |
| Japan | Argentina | |
| Malaysia | Brazil | |
| Pakistan | Chile | |
| Philippines | Colombia | |
| South Korea | Mexico | |
| Taiwan | Peru | |
| Thailand | | |

[a] All estimates refer to the country with frontiers as in 1990; where necessary population and GDP data for earlier years have been adjusted to this basis.

purpose of this and other measures reviewed in this chapter, a sample of thirty broadly comparable market economies was selected. This comprises the three other dominions (Canada, Australia, and New Zealand) with whom, until recently, South Africa was most frequently compared, seven of the smaller, late-developing European economies, six countries in Latin America, eight in Asia and six in Africa (see Table 1.1).[4] Algeria and Nigeria were included in the sample to improve the coverage of Africa, even though data for them are only available from 1950; all the remaining countries are covered from 1913.

The period 1870–1913 was generally one of expansion and prosperity for the world economy.[5] Its most prominent feature might be described as the early development of globalization, characterized by an enormous extension of international communications by rail, sea, and the

[4] It is not entirely appropriate to compare a single country with averages of groups of countries, but this procedure was adopted as a reasonable compromise between an unduly complex list of thirty individual countries and a smaller sample. Rates of growth for groups of countries and for the sample as a whole were calculated from weighted totals, not simple arithmetic means.

[5] For a more detailed account of global economic performance in this and other periods see Maddison, *World economy*, pp. 94–167.

international telegraph, and by massive intercontinental flows of both labour and capital. It was also the high point of colonialism, especially in Africa, where European powers imposed their rule on most parts of the continent. World trade was impeded by the introduction of protection by several industrial nations, but despite this it continued to expand at a rapid rate. The rate of increase in output responded favourably to these overall conditions, and in most parts of the world was much more rapid than in earlier decades of the nineteenth century. Following the discovery of gold and diamonds, South Africa was a full participant in this extended phase of growth and trade, with significant inflows of capital and migrants, and increased foreign trade.

Figure 1.1 shows the standing of the country, measured by GDP per capita, at the end of this growth phase. In 1913, at a level in 1990 dollars of some $1,600, South Africa was in twelfth place, a long way behind the three other dominions, each with per capita incomes in excess of $4,000, and also behind most of the European latecomers. However, among the sample countries in Latin America, Asia, and Africa, there were only three – Argentina (at $3,800), Chile (at $2,650), and Mexico (at $1,730) – that had achieved a higher level of per capita income, and the level in South Africa was appreciably higher than the sample average of $1,330. So by 1913 the country could be said to have made a good start on the basis of the mining revolution, and to have moved significantly ahead of many colonial and semi-colonial economies.

For the assessment of comparative economic performance as shown by the subsequent rate of growth of real GDP per capita, the period after 1913 has been subdivided into three phases: from 1913 to 1950, 1950 to 1973, and 1973 to 1994 (see Table 1.2). The most striking feature of this comparison over some eight decades is the remarkable long-run deterioration in South Africa's relative performance, from one of the best economies in the first period to one of the worst in the last.

The first phase covers the two world wars and the Great Depression of 1929–33. Many economies suffered great loss of life and substantial damage to property during either or both of the wars. For many more – including, in particular, the United States and Germany – the years after 1929 were a time of severe recession as output, employment, trade, and prices collapsed. From the mid-1920s, conditions in agriculture deteriorated rapidly in both industrial and developing countries, with massive over-production and tumbling prices of wheat, sugar, coffee, and many other commodities. World trade was severely affected as country after country introduced protective tariffs and other measures in a desperate attempt to maintain their own output, regardless of the consequences for others. There was neither international leadership nor co-operation; the

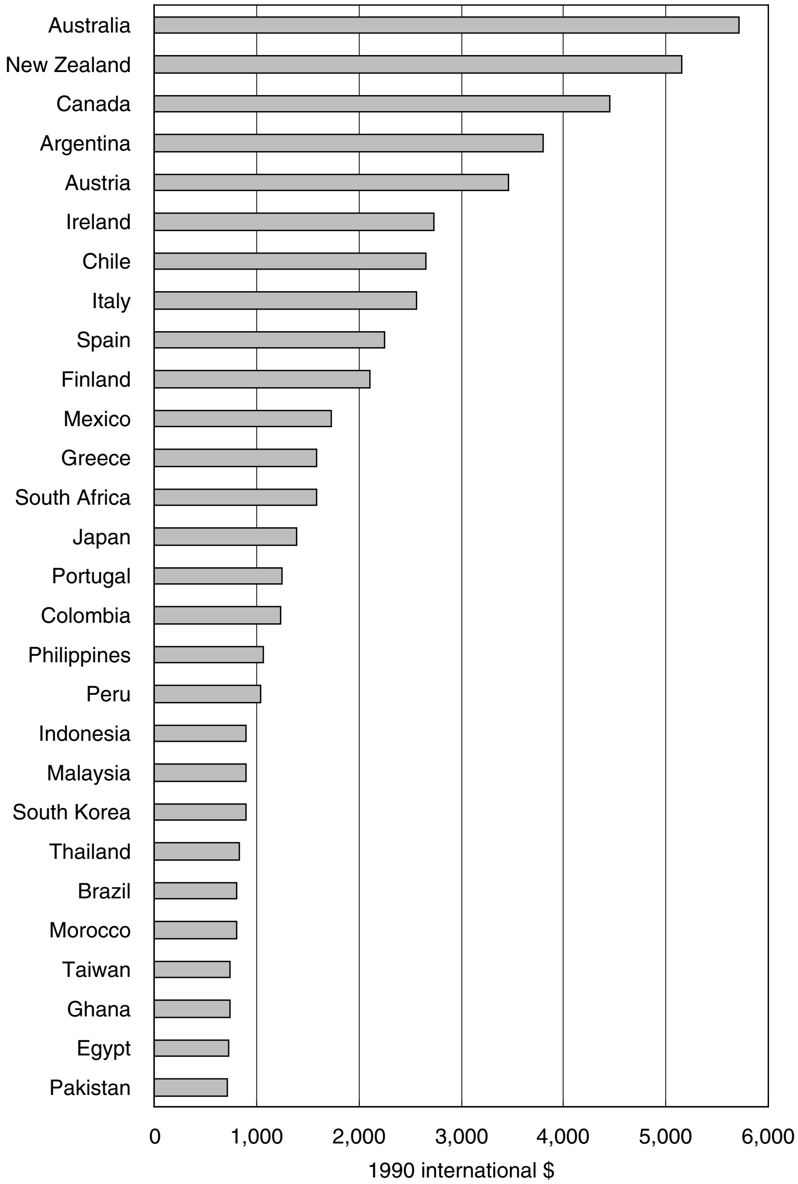


Figure 1.1. International comparison of gross domestic product per capita in 1913

*Source:* Maddison, *World economy*.

Table 1.2. *Growth of gross domestic product per capita of sample economies at constant prices, selected periods, 1913–94*

| | (1) 1913–50 | (2) 1950–73 | (3) 1973–94 |
|---|---|---|---|
| | (annual percentage growth rates) | | |
| South Africa | 1.3 | 2.2 | – 0.6 |
| Latin America | 1.2 | 2.7 | 1.1 |
| Dominions | 1.1 | 2.5 | 1.5 |
| Japan | 0.9 | 8.0 | 2.6 |
| Europe | 0.6 | 5.2 | 2.0 |
| Other African[a] | 0.6 | 2.0 | 0.8 |
| Other Asian[b] | 0.0 | 3.5 | 4.3 |
| Total sample | 0.5 | 4.0 | 2.0 |

[a] Three in 1913–50.
[b] For South Korea, 1913–40 population and GDP are assumed to have grown at same rate as for Korea as a whole; for Pakistan, 1913 population is based on census data for corresponding areas of India, and per capita GDP is assumed to have grown at same rate for 1913–1950 as in total pre-partition India.

*Source:* Maddison, *World economy*, pp. 185, 195, 215, 224, 276–9, 288–9, 304–5, and 322–6.

gold standard was finally abandoned by all but a handful of countries, but only after the policies imposed in its name had done considerable damage; and many banks were forced to close as the value of their assets collapsed. The consequences of war and depression were reflected in very slow growth of output, with an average rate for the sample as a whole over the entire period of only 0.5 per cent per annum. However, South Africa was one of a small number of countries that both benefited from the two wars and escaped most of the adverse effects of the depression. Agriculture was not immune from the worldwide collapse of farm prices, but both gold mining and industry prospered in the 1930s and again during the Second World War. GDP per capita was thus able to expand much more rapidly than the sample average, at a rate of 1.3 per cent per annum.

In the next phase, from 1950 to 1973, the world economy enjoyed a long and unique boom; it was a 'golden age' of dynamic growth, unparalleled in the prosperity it created and the range of economies it embraced. Countries which had fallen behind during the world wars and the Great Depression were now able to catch up and to take advantage of advances in technology, economic know-how, and institutions developed by the leading nations. There was scope for unusually rapid growth as under-used resources, especially labour, were drawn into more productive activity. At home, governments were far more willing than before to adopt fiscal and monetary policies designed to promote high levels of demand and full employment. Abroad, capitalist economies worked together harmoniously in the face of the threat posed by the growth of the Soviet Union and other communist countries.

Western policy makers had also learned vital lessons from the disasters of the inter-war years. They co-operated to create an international monetary and financial system under the leadership of the United States which was stable and flexible, and they encouraged the removal of barriers to trade, at least for industrial products. Across the globe, output, productivity, investment, and foreign trade shot forward at an exceptional pace, and employment was high and inflation low. South Africa participated successfully in this golden age, and the increase in its own rate of growth of real GDP per capita from 1.3 to 2.2 per cent per annum was cause for much domestic satisfaction. However, as Table 1.2 reveals, performance in many other countries was markedly superior, and the rate of increase in GDP per capita achieved by South Africa was little more than half the sample average of 4 per cent per annum.

In time, however, the exceptional circumstances that had generated the performance and prosperity of the global golden age came to an end. Some of the factors that emerged were the direct consequence of the preceding era of rapid growth, such as the inflationary consequences of the increased pressure for higher wages that could be exerted in an era of full employment, or the elimination of the exceptional 'benefits of backwardness' that several countries had enjoyed in the early post-war decades. Others were largely independent, such as the activities of the member states of the Organization of Petroleum Exporting Countries (OPEC) which caused the explosive rise in oil prices in 1973, and the increase in oil prices again in 1979. Governments of the leading advanced countries started to give greater priority to curbing inflation – in particular, by raising interest rates – than to promoting growth, investment, and full employment.

Elsewhere, notably in Latin America, there was less acceptance of the need to bring rapidly rising prices under control, and the result was excessive public borrowing which eventually brought financial systems under extreme pressure, with adverse effects on stability and growth. The system of fixed exchange rates established immediately after the Second World War at Bretton Woods proved increasingly unable to withstand the strains of the great change in the relative economic strength of the United States and the other industrial nations, which was itself a product of the golden age. The expansion of world trade dropped sharply, though it was still an impressive 5 per cent per annum.

In this final phase, from 1973 to 1994, there was thus a general deterioration in the performance of the world economy, with the growth in output and trade slowing to a much more sedate pace, inflation accelerating, and unemployment rising. However, it is important to note that for the United States, western Europe, and most of Asia, this deceleration still left per capita GDP increasing at appreciably higher rates than before 1950. For the thirty sample countries, growth in real GDP dropped from 4 to 2 per cent per annum. South Africa shared in the general 'stagflation', but to a much greater extent than elsewhere, and was one of only four sample countries (the others were Peru, Ghana, and Nigeria) to experience an actual decline in real GDP per capita. The net outcome of this long-run relative deterioration was that South Africa was overtaken by many other countries. It was not only that twenty of the thirty sample countries, including several in Asia and Latin America, had attained higher levels of GDP per capita by 1994, but that the gap between them and South Africa had grown progressively larger (see Figure 1.2). Whereas in 1913 South Africa's per capita income had been above the average of the sample countries (see Figure 1.1), by 1994 it had fallen to only 60 per cent of the sample average.

The comparison so far has been concerned with measures of GDP per capita, but in the special circumstances of South Africa it is inappropriate to consider average income without reference to the extreme inequality in the distribution of that income between black and white. Figure 1.3 remedies this deficiency by showing per capita personal income (in constant 1995 rand) for whites and Africans at roughly twenty-year intervals from 1917 to 1994.[6] The boxed figures above the bars show the ratio of white to African average income at each date. At the first three dates, average white incomes were consistently more than eleven times greater than average African incomes. In the period following the Second World War the ratio increased to a peak close to thirteen in the 1960s and then started to diminish, mainly as a result of improvements in African wages and in pensions. By 1994, the gap had narrowed

[6] H. Bhorat et al. (eds.), *Fighting poverty: labour markets and inequality in South Africa*, Cape Town: University of Cape Town Press, 2001, p. 2, for 1917 and 1936; H. de J. van Wyk, *Personal disposable income in South Africa by population group, income group and district, 2000,* University of South Africa, Bureau of Market Research, Research Report, No. 279, 2000, p. 27 (adjusted to 1995 prices), for 1960, 1975, and 1994. Personal income is defined as current pre-tax income in cash and in kind earned or received from all sources, including transfers from government and businesses.

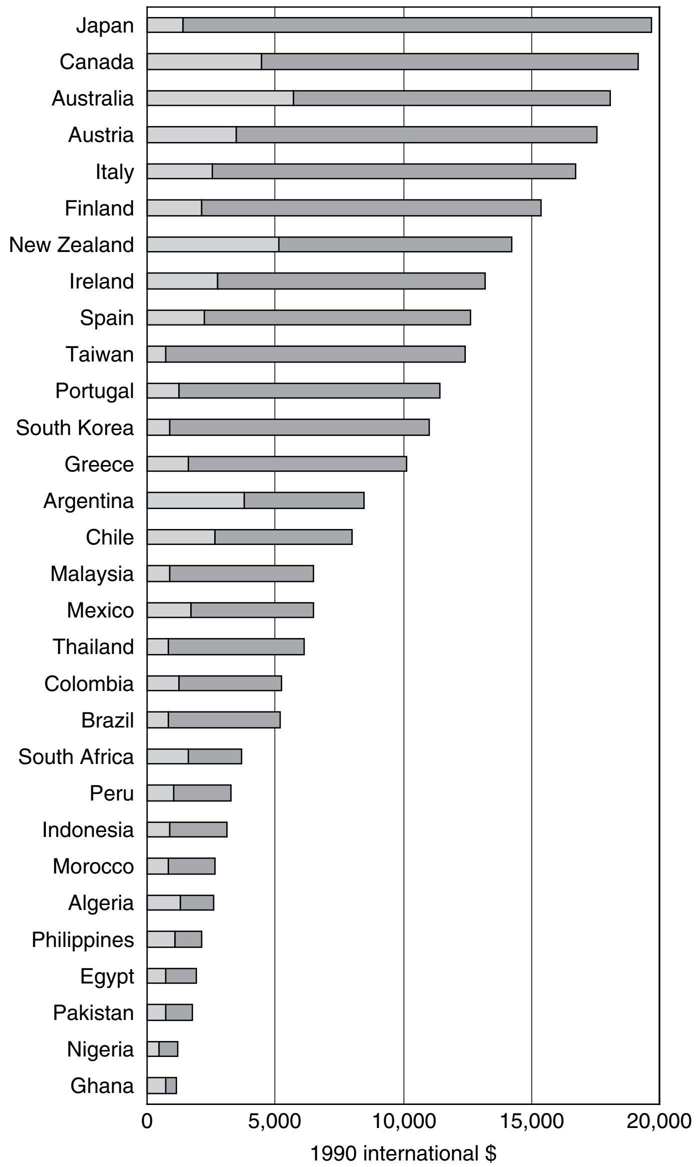


Figure 1.2. International comparison of gross domestic product per capita in 1994

*Note:* Left-hand part of each bar shows level of per capita GDP in 1913.

*Source:* Maddison, *World economy*.