

SECOND CARNEGIE INQUIRY INTO POVERTY  
AND DEVELOPMENT IN SOUTHERN AFRICA

The State, the Market and the Inter-  
regional distribution of Industry  
in South Africa

by  
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This paper makes use of and develops further some material contained in a fuller study of regional development undertaken by the writer at the Institute for Social and Economic Research of the University of Durban-Westville.

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This paper focusses primarily on two questions:

- (i) What has been the impact of the government's regional policy on the location of industry in South Africa since 1960?
- (ii) What have been the fundamental political and economic functions of regional policy in the South African system?

Before we can even begin to address either of these questions we clearly must try to establish some basic facts regarding trends in the inter-regional distribution of industry in South Africa<sup>1)</sup>. There is a remarkable paucity of data in this field, and a consequent tendency for some recent discussion of the role of the state in this sphere to suffer from reliance on out of date and inadequate information.

What emerges from analysis of the basic data is that whereas between the years 1956/57 and 1965/6 the proportion of manufacturing employment situated in the main industrial areas increased from 79,6 to 81,9 per cent, between 1965/6 and 1979 it fell without interruption from 81,9 per cent to 76,9 per cent<sup>2)</sup>. This suggests that a fairly fundamental structural change in the relative strength of the forces making for geographical concentration of industrial employment compared with those making for decentralisation or deconcentration occurred in the latter half of the 1960s. There had previously been fluctuations up and down in the proportionate share of the main industrial regions in manufacturing employment, but never a completely uninterrupted declining trend over such a long period, of thirteen or fourteen years.

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1) In dealing with this aspect the paper draws on Bell (1983).

2) See Table 1 which is reproduced from Bell (1983:9), with a minor readjustment of the figure for the PWV region in the light of more recent information.

TABLE 1

Employment in Manufacturing Industries (%)

	1956/7	1961/2	1965/6	1967/8	1970	1972	1976	1979
	%	%	%	%	%	%	%	%
Western Cape	16,2	16,5	16,0	15,7	15,5	15,6	14,6	14,3
Port Elizabeth-Uitenhage	4,9	5,9	6,1	5,9	6,4	6,1	5,6	5,3
Durban-Pinetown-Inanda	12,5	12,7	13,2	13,2	13,6	13,6	13,7	13,8
Pretoria-Witwatersrand- Vereeniging	46,0	45,3	46,6	46,3	45,5	44,7	44,4	43,5
Main industrial areas	79,6	80,4	81,9	81,1	81,0	79,9	78,3	76,9
Rest of South Africa	20,4	19,6	18,1	18,9	19,0	20,1	21,7	23,1
Republic of South Africa	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Sources: See the Appendix to this section which gives actual numbers employed as well as percentages for the years 1956/7 to 1976. The PWV region figures for 1979 are estimates based on the data in Table 2.2, which assumes that the share of the PWV region as defined in the above table, like that of the PWV region to exclude the magisterial districts of Brits, Nigel and Heidelberg, declined by the same number of percentage points (0,9) as the PWV region excluding Brits but including Nigel and Heidelberg which fell from 45,1 per cent in 1976 to 44,2 per cent in 1979. Since Nigel and Heidelberg are a very small proportion of the total this must give an estimate very close to the actual. Estimation is necessitated by the fact that separate information is not available for Nigel and Heidelberg for 1979.

Note: See notes to the Appendix to this section. Also note that the percentages for 1956/7 are based on average employment figures for the year in each of the regions, whereas for subsequent years they reflect employment levels as at a specific date in each year.

TABLE 2

Employment in Manufacturing Industry in Border and Black Areas  
(excluding Transkei) and Rest of South Africa as a Percentage of South African  
Manufacturing Employment

	1961/2	1965/6	1967/8	1970	1972	1976	1979
Cape border & Black Areas	3,07	2,93	2,88	2,91	3,06	3,09	3,37
Natal border & Black Areas	6,53	6,42	6,43	6,29	6,78	7,53	7,87
Transvaal border & Black Areas	2,56	2,52	2,46	2,57	3,00	3,92	4,30
Total border & Black Areas	12,16	11,87	11,75	11,77	12,83	14,54	15,54
Rest of South Africa excluding border & Black Areas	7,44	6,23	7,15	7,23	7,27	6,95	7,56
Rest of South Africa including border & Black Areas	19,6	18,1	18,9	19,0	20,1	21,7	23,10
Republic of South Africa	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Sources: Based on employment figures compiled from various manufacturing census reports.

Notes: (1) The corresponding regions included in the provincial totals for 1967/8 1970 and 1972 are: Cape 0504, 0602, 0603, 0604; Natal 0902-0910; Transvaal 1101 1104-1108. And for 1976 they are: Cape 0501-0503, 0601-0603, less the Alban; magisterial district; Natal 0702-0703, 0801-0808; Transvaal 1001-1003 plus the Brit; magisterial district. Though the region codes differ, the magisterial district; comprising the various provincial totals are, with negligible exceptions, the same over time, and the figures are therefore comparable.

(2) The percentage share of the Transvaal border and Black areas excluding Bophutatswana increased from 3,35 in 1976 to 3,73 in 1979. It has been assumed that the 1976 Transvaal figure of 3,93 including Bophutatswana increased by the same number of percentage points to 4,30 in 1979. Separate figures for Bophutatswana are available only for 1976, and this territory was not included in the 1979 industrial census.

(3) Employment in the Transkei is not reflected in any of the above figures. It was not covered by either the 1976 or 1979 industrial censuses and it has thus for reasons of comparability been removed from the Cape figures for earlier years as well.

Average Annual Rates of Growth of Manufacturing Employment in  
Various Regions 1961/2 to 1979 (%)

	1961/2- 1967/8	1967/8 1979	1961/2 1965/6	1965/6 1967/8	1967/8 1970	1970 1972	1972 1976	1976 1979
1. Border and Black Areas	5.2	5.3	6.5	2.2	5.2	6.1	8.1	1.4
2. Rest of South Africa	5.1	4.6	5.2	5.0	5.5	4.3	6.9	1.4
3. Main Industrial Areas	5.9	2.1	7.4	2.3	4.9	1.0	4.2	-1.5
4. Republic of South Africa	5.7	2.7	7.0	2.8	5.0	1.6	4.7	-0.9
5. Western Cape								
6. Durban-Pinetown	6.3	3.1	7.7	3.0	6.4	1.6	8.7	-0.8
7. PWV	6.1	2.1	7.7	2.4	4.2	0.8	4.6	-1.6

What, particularly, of the border and Black areas of South Africa? These collectively, as Table 2 shows, substantially increased their proportionate share of manufacturing employment (without interruption) from 11,75 per cent in 1967/8 to 15,54 per cent in 1979, having prior to that declined from 12,16 per cent in 1961/62 to 11,75 per cent in 1967/8. The probably fundamental structural change in the balance of focus making for concentration and deconcentration is thus reflected in the particular case of the border and Black areas as well<sup>1)</sup>.

If these changes in proportionate shares appear slight, it is because the initial base of industrial employment in the less industrialized areas is small in absolute terms. In fact, they imply substantial differences in average annual percentage growth rates as Table 3 indicates. Whereas the average annual rate of growth of manufacturing employment in the main industrial areas was 5,9 per cent in 1961/2 to 1967/8 and fell to 2,1 per cent in 1967/8 to 1979, the corresponding rate of growth in the border and Black areas increased slightly from 5,2 per cent in 1961/2 to 5,3 per cent in 1967/8 to 1979. Thus during the 1970s when the rate of growth of industrial employment declines sharply compared with the 1960s in the country as a whole, the rate of growth in the border and Black areas picks up, and there is consequently a marked improvement in the employment growth performance of the industrial periphery relative to the core.

At this level of basic facts, too, it might be noted that the process of deconcentration implied by these figures cannot be readily written off as merely one of "suburbanisation" of industry from the main industrial areas, rather than as one involving genuine decentralisation of outlying areas. For one thing, accompanying the process throughout was a relative transfer of industrial capacity and employment from the PWV region to the only markedly ascendant metropolitan area, the Durban-Pinetown region. Within Natal, while the greater Pietermaritzburg region grew more rapidly than any other part of the province in the years 1967/8 to 1976, from 1976 to 1979 employment growth was most rapid outside the Durban-Pinetown-

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1) The still prevalent notion that the forces of concentration continued to predominate throughout the 1960s, and indeed even right up to recent years, thus seems to be untenable.

Pietermaritzburg axis. Indeed, absolute increases in manufacturing employment in Natal occurred only outside of the Durban-Pinetown region in the period 1976-1979, and though some of this (768 jobs) was due to growth in the Natal Midlands and in the Newcastle and Richards Bay areas, the bulk of it (1310 jobs) occurred in KwaZulu, albeit from the small base of 2839 in 1976 to 4149 in 1979<sup>1)</sup>.

There was, thus, it appears a persistent decline in the degree of geographical concentration of industrial employment in South Africa from the mid-1960s onwards. The question which remains is, what factors were responsible for this trend? Especially there is the question posed at the outset of the impact of regional policy on the location of industry.

As we have seen, in the early to mid-1960s there was a tendency for the degree of concentration to increase. Should we therefore see the subsequent reversal of this trend primarily as the consequence of government intervention? For several reasons it is questionable whether we should do so. First, the tendency for the share of the main industrial areas in the country's total manufacturing employment to decline sets in in 1965/6, at a time when the size of the financial inducements available in the development regions is very small and before direct controls via the Physical Planning Act are introduced. Second, in the period 1967/8-1970, after the Physical Planning Act was implemented, the growth rate of employment in the PWV region averaged 4,2 per cent per annum compared with only 2,4 per cent in 1965/6-1967/8<sup>2)</sup>. Third in the case of two major labour-intensive industries, textiles and clothing, the PWV region experienced substantial decline before 1968, and subsequent decline was

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- 1) As Table 2 above shows, too, the phenomenon was not confined to Natal, and its general nature is suggested by the fact that between 1976 and 1979 even the Ciskeian border and Black areas increased their share of national industrial employment significantly, albeit from a small base. It should also be noted, that even relative shifts of industry from Durban-Pinetown to Pietermaritzburg are of significance for the racial division of labour so that though some might wish to call such shifts "suburbanisation" they are of considerable importance.
  - 2) There is, therefore, no evidence in these figures for the view that a substantial number of jobs was lost owing to refusals of applications in terms of Section 3 of the Physical Planning Act in 1968 and 1969.



thus simply a continuation of the earlier trend<sup>1)</sup>. Fourth, the tendency for employment in the textiles and clothing industries to shift away from the PWV region mainly towards Durban-Pinetown and the Cape Peninsula, rather than towards small industrial centres, was in evidence well before 1968 and therefore cannot be attributed to the application of Section 3 of the Physical Planning Act to the PWV region and the exemption of the other two centres<sup>2)</sup>.

The observed trends it is being argued; therefore, cannot be accounted for primarily by the implementation of direct controls on the expansion of the major metropolitan areas or financial inducements. However, taking the period 1967/8-1979 as a whole, we do find a much slower rate of growth in the metropolitan areas associated with a sustained rate of growth of over 5 per cent in the border and Black areas. And this is perhaps consistent with what we should expect if the process of industrial decentralisation noted earlier was due to direct controls on the expansion of the PWV region. The direct controls stifle growth in the main industrial areas

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- 1) The PWV region's share of employment in the clothing industry, for instance, fell from 44,0 per cent in 1956/7 to 35,1 per cent in 1967/8, whereas it fell a further 12,6 percentage points in the next eleven years from 1967/8 to 1979. Its share of textiles employment fell from 21,6 per cent in 1959-60 to 15,1 per cent in 1968, and by only a further 4,2 percentage points in the next eight years from 1968 to 1976. There thus appears to be no justification for speaking of the decline in the Transvaal clothing industry after 1968 as "unprecedented".
  - 2) In textiles the Cape Peninsula's share of unemployment increased from 12,9 per cent in 1962 to 15,3 per cent in 1968, but then rose by only another 0,9 percentage points before tailing off somewhat after 1970; and the Durban-Pinetown regions share rose from 20,5 pr cent in 1959/60 to 27,7% in 1968, but thereafter rose by only a further 0,6 percentages points before tailing off after 1970. Similarly, in clothing the Cape Peninsula's share rose from 31,0 per cent in 1956;7 to 31,9 per cent in 1966, and then gained 0,8 percentage points from 1968 to 1976. In the case of Durban-Pinetown the proportionate share of employment in the clothing industry was already strongly on the rise, having increased from 17,0 per cent in 1959/60 to 20,1 per cent in 1968, and though in the next eleven years to 1979 it rose by another 10 percentage points this may be seen simply as a continuation of the earlier firmly established trend.

and hence in the country as a whole, but a certain amount of industrial activity and employment is diverted to smaller centres which therefore experience comparatively rapid growth rates.

In this view it is the forces making for a reallocation of employment inter-regionally which slow down the overall rate of economic growth, producing the observed association between slower economic growth and a tendency towards industrial decentralisation. Indeed, one writer appears explicitly to take the view that the recession of 1968-69 was the direct consequence of the Physical Planning Act.

However, this is highly improbable. The major decline in the rate of growth of the South African economy occurred in 1966 and 1967, well before the Physical Planning Act came into operation, and indeed well before its passage through parliament in late 1967. The somewhat smaller further decline in the growth rate in 1968 and the stock market slump must therefore be seen simply as a consequence of much larger forces already underway. Indeed, the problem of faltering growth rates in the latter part of the 1960s, which is yet more clearly evident in the 1970s, is a worldwide phenomenon related to fundamental changes in the international economic system rather than to any purely domestic factor<sup>1)</sup>.

If there is any causal connection between the slower rate of growth of the South African economy after 1968 and trends in the inter-regional distribution of labour therefore it is more likely to run from the former

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1) That government policies, including restrictions imposed in terms of the Physical Planning Act are a negligible determinant of growth rates in South Africa from 1968 on is also indicated by the fact that the rate of growth of employment and output in the country as a whole, and the main industrial areas in particular, varies cyclically in a manner which is readily explicable in terms of cyclical fluctuations in the world economy, as well as shocks such as fluctuations in the price of gold which obviously have a profound effect on the South African economy but which also originate abroad.

to the latter. That is, it is more likely that slower growth has determined the way in which the geographical distribution of employment and output is changing, and also the way in which regional policy is formulated, rather than that trends in the inter-regional division of labour and the government's regional policy as such have determined the country's rate of economic growth.

In fact the present writer has recently argued (Bell: 1983) that the tendency towards geographical deconcentration described earlier is closely related to the effect which structural changes in the world economy have had on the South African economy. In particular it is argued that rising raw materials prices and the changing structure of international competitiveness due to the rise of Japan and the "newly industrializing countries" have, by reducing the profitability of industrial production, reduced the rate of growth in the advanced industrial countries and indeed in the world economy as a whole, including South Africa. This problem, which began to make itself felt in the late 1960's created a strong incentive for South African manufacturing to increase its competitiveness. As a country at a much earlier stage of development, there was the possibility here of responding by making better use of the country's cheaper labour resources, which in the particular case of South Africa has meant changing the racial division of labour both by relaxing the job colour bar within the existing major industrial areas, and through a shift in the geographical distribution of manufacturing activity from these areas to the less industrialized parts of the country.

The essence of this argument, thus, is that the observed tendency towards industrial decentralisation has occurred largely spontaneously in response to the pressures of competition in world markets for manufactured goods. The geographical deconcentration of industry has largely been the result of a striving after lower labour costs through the substitution of Black labour obtainable at low wage rates in the less industrialized areas, for more expensive White, Coloured, Asian and, indeed, also Black labour available in the larger industrial centres. There had always been large inter-regional wage differentials (due, amongst other things, to influx control and the consequent rigid regional segmentation of the labour market), but the immediate cause of the intensified effort to take

advantage of these was the structural change in the world system of industrial production and trade which occurred in the 'sixties<sup>1)</sup>. In this view of the process of deconcentration of the mid-1960s through, at least, to the end of the 1970s, the process is linked in an essential way to the decline in economic growth rates. As in the case of the developing market economies relative to the advanced industrial countries, the growth of manufacturing employment in the less industrialized parts of South Africa has risen relative to the country's main industrial areas. As a result of this, the less industrialized areas have continued to grow at a relatively high rate in the midst of a long period of much slower growth in the country as a whole. This view makes it possible to link, in a theoretically coherent manner, slower growth in the world economy, the marked decline in the trend rate of growth in South Africa, and the increase in the rate of growth of the less industrialized parts of the country compared with the main industrial areas. It does not seem that this can be done in any other way.

The argument above does not imply that the Physical Planning Act and the positive, financial inducements might not have had some effect on the geographical distribution of manufacturing employment. However, they do imply that while these governmental measures may well have had some influence (possibly accelerating somewhat the process described above), the trends were fundamentally due to market forces which began to have an effect quite early on in particular sectors, and which were reflected in the overall geographical deconcentration of manufacturing industry once the rate of growth of industrial employment in the country as a whole declined markedly in the late 1960s. Without a spontaneous tendency towards industrial deconcentration, it is improbable that the significant changes in 'inter-regional' division of labour described above could have been achieved.

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1) The fact that Black wage rates in manufacturing industry in the country as a whole grew considerably more rapidly in the period 1968 to 1979 than from 1960 to 1968 may also have increased the incentive to benefit from the lower wage rates prevailing in the border and Black areas, thus reinforcing the impact of international competitive pressures.

We are now left with the second of the two basic questions posed at the outset: What have been the fundamental political and economic functions of regional policy in the South African system?

In earlier analyses of the problem (Bell: 1973a and 1973b) the present writer argued that the objectives of the government's policy of industrial decentralisation were essentially political in the sense that they aimed simply, "to increase the proportion of the African population resident in the Bantu areas" by influencing "the geographical distribution of employment in manufacturing industry both directly by restricting the rate of growth of the larger industrial centres and by encouraging industrial development at certain 'growth points', situated predominantly in the border areas"<sup>1</sup>). That is, the objective of the policy was seen to be expressible in terms of the number of jobs needed to contain the rural-urban flow of Black workers within certain specified limits determined by the need to prevent whites being overwhelmed by Blacks by sheer weight of numbers. It was taken, therefore, that industrial decentralisation was seen by the Government as worth pursuing in itself for these political reasons, and that it therefore would be worthwhile achieving such political benefits at least up to some level, even if this exceeded what was economically optimal, and thus involved economic costs (that is, conflicted with the objective of achieving a high rate of economic growth). And it was argued that pursuit of this objective, at least on the scale apparently implied by the government's public statements, would far exceed both what was likely to occur 'spontaneously' if market forces were left to themselves and what might be justified in terms of some social economic optimum<sup>2</sup>).

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1) Bell (1973b: 40).

2) One criticism that may be levelled against this view is that it fails to recognise the role of separate development in maintaining the political arrangements necessary for the perpetuation of an expanding capitalist system in South Africa. In this sense then it fails to acknowledge that the policy of industrial decentralisation may be economically functional: that is, for an indefinite period at least it contributes to survival of the economic system, by for instance maintaining regional and racial divisions among workers. However, even those making this point have tended to take it that achieving these political arrangements involves some short-term economic sacrifice. On both this view and that taken by the present writer in the earlier studies referred to above, therefore, there is seen to be a trade-off in the medium to long-term between political and economic objectives.

This view of the aims of industrial decentralisation as essentially political in this sense was I believe particularly reasonable ten or more years ago. It was in response to essentially political problems in the homelands that the Tomlinson Commission was established and furthermore, the period after the Commission's report was published saw a marked increase in the rate of unemployment amongst Whites, Coloureds and Asians as well as amongst Blacks. The conditions in which regional policy was being formulated (including the controversial issue of whether government should allow White capital into the Bantu homelands), were thus reminiscent of the general conditions in which the Native Economic Commission of 1932 delivered its report, which emphasised the problem of conflict between Blacks and Whites in the major cities during a time of high unemployment. The Permanent Committee was thus established in mid-1960 at a time when the rate of growth of industrial employment was lower than at any time since the Second World War and the position was to deteriorate still further in the next two years.

Hardly any progress was made therefore initially. In the period 1961/2 to 1965/6 the growth of industrial employment in the border and Black areas rose sharply, but it increased even more sharply in the metropolitan areas and though the problem of unemployment, therefore, receded, no headway was made in dealing with the dangers emphasized by the Tomlinson Commission. On the contrary with the rapid growth of employment in this period in the metropolitan areas the political problem of Black urbanisation was greatly increased. At the end of this great boom of the 'sixties the authorities resorted to various desperate measures to stem the flow of Blacks to the larger cities. That is, the emphasis appears to have switched to an attempt to achieve a considerable degree of territorial separation of the races, not by revolutionising economic conditions in the border and Bantu areas, but by tightening 'influx control', by 'endorsing out' Africans from the larger urban areas, and by resettling Africans from White farming areas in the 'homelands'. The period 1966 to 1968, as the great boom recedes, is marked by a spate of measures designed to check the movement of Blacks into the major industrial areas. The Physical Planning Act is but one of these. At the same time efforts are made to increase the chances of attracting industry to the periphery by a decision in 1968 to allow White capital into the homelands, and increases in the financial inducements in the same year and various dates thereafter.

It gradually begins to be appreciated, however, that trying to keep Blacks out of the larger cities simply by developing the homelands and industrial centres on their periphery, is a losing battle. Dr PJ Riekert, Economic Advisor to the Prime Minister at the time states in January 1970 that the "development of the Homelands can ... never be the only aim of economic policy in South Africa" and that "our development target for the Bantu areas should be of a more modest nature". The idea of separate development via economic decentralization, as distinct from more purely political arrangements, tended to fall from view in the first half of 1970. All kinds of new problems arose, particularly the oil crisis and the great economic uncertainty and anxiety which it produced. Concern with maintaining a high rate of economic growth displaced the objective of separate development. However, between 1967/8 and 1976 the rate of growth of industrial employment in the border and Black areas increased steadily to very high levels (from 5,2 per cent in 1967/8-1970, to 6,1 per cent in 1970-1972, and 8,1 per cent in 1972-1976), and the performance of these areas improved greatly relative to the main industrial areas, especially the PWV region.

This tendency, we have argued above, largely occurred spontaneously, and was basically in tune with market forces, but this clearly does not mean that it resulted in enough jobs in the border and industrial areas to make a significant contribution towards the objective of a territorial separation of Blacks and Whites. Nor it was clear, could it deal adequately with the poverty of the Black areas, or overcome the need for large scale urbanisation. For, as the data indicate, though the performance of the border and Black areas improved markedly after 1967/8 the absolute number of new jobs in these areas was still very small relative to the growth in the economically active Black population which was at its peak in the late 1960s. Indeed, since this increased rate of growth in the border and Black areas was accompanied by a decline in the employment growth rate elsewhere, there was a tendency for the Black unemployment rate in the country as a whole to increase and because of influx control this had a major impact on the unemployment rate in the reserves.

The notion that industrial decentralisation as such could make a substantial contribution to the geographical distribution of the Black population thus became less and less credible. Indeed with the very severe South African business recession of 1976-1979, when employment growth in the border and Black areas fell to only 1,4 per cent per annum (and was -1,5 in the main metropolitan areas) one might expect that the disillusionment with this policy would have been final. Indeed, as Helen Zille (1983) says, in discussing the recent views of influential figures like JA Lombard and SS Brand: "There are certain key areas of consensus -- One common starting point is the acceptance that the previous attempts at economic decentralisation failed. This has been a theme in official documents discussing the decentralisation proposals since the 1980 Benso Report".

Yet the policy of industrial decentralisation appears to play as important a part as ever in the government's thinking, and would appear to have been given a shot-in-the-arm by the revised, greatly increased package of incentives announced at the "Good Hope" Conference of November 1981. How is this to be understood? Is it simply a stubborn refusal on the part of the authorities to learn the lessons of the past regarding the difficulties of achieving political separation via economic decentralisation? Can regional policy as reformulated in 1981 be seen simply as a logical, more high-powered extension of earlier attempts to significantly influence the geographical distribution of the Black population through economic decentralisation, as such, as distant from various coercive measures? In the light of the dismal failure of this strategy in the past, neither of these seem to be plausible. The trouble, however, is that this seems to leave us without a satisfactory explanation of the role and function of regional policy in the current phase of South African development. What then are the alternatives?

As we have seen above there has been a spontaneous tendency towards industrial deconcentration, and this process has continued right through from 1967/8 to 1979. There thus does appear to have been some economic basis for a continuing movement in this direction. Legassick (1974 and 1975) indeed has argued that industrial decentralisation is a way of resolving the potential conflict between Black and Whites, as Blacks are



substituted for Whites in the industrial labour force. He sees the rapid growth in demand for Black labour as part of a process of de-skilling, in particular of "the replacement of the artisan - unskilled division of labour by semi-skilled operatives working machines", due to a policy of greater rationalization in secondary industry involving mechanization and the organization of production in larger production units. The potential conflict to which this gave rise was to be resolved by protecting White workers in existing industrial areas and permitting Blacks to perform semi-skilled and skilled jobs in decentralized areas.

By comparison with Legassick, however, we would see industrial decentralisation as a way of facilitating the spontaneous tendency to substitute Blacks for Whites (and indeed also for Indian and Coloured workers), but without the emphasis on increasing capital-intensity and de-skilling. Furthermore, by contrast with Legassick, the process of industrial deconcentration may be seen as occurring not simply because of any deliberate policy on the part of the state, but basically as a result of competitive market pressures. Rather than necessarily involving a process of de-skilling the process of decentralisation underway may well reflect the pursuit by industry of cheaper labour of all kinds, whether unskilled, semi-skilled or skilled<sup>1)</sup>.

If there have for the past ten to fifteen years been in operation forces making for spontaneous industrial decentralisation, as we have argued, then what has been the role of the government's regional policy? Clearly in more difficult economic times, with intensified international competition in industrial goods, it may make sense for government to try to accelerate this process up to a point by means of labour training and

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1) This is an unsettled issue requiring further analysis, but there is at present no really satisfactory evidence for a process of deskilling relevant to regional development in South Africa.

other regional incentives, simply for economic reasons<sup>1)</sup>. In addition, the government doubtless values any contribution which economic decentralisation can make towards separate development.

However, this does not seem to be the whole story. Since the late 1960s and particularly since the mid-1970s, not only the nature of regional policy but of South African economic policy in general appears to have been completely transformed, and regional policy must be seen in the context of these larger changes. The year 1976 may be seen as a watershed in this process of transformation. This is not only because of the traumatic political events of that year, though these clearly are important. What is crucial is that the economy in 1976 goes into a long decline (actually begun in the late 1960s but interrupted by the gold boom of 1973-75), which notwithstanding the cyclical upswing of 1979-1981 has persisted right through to the present.

This long decline in South Africa's trend rate of growth and the accompanying change in the social philosophy of economic policy-makers must, in turn, be seen in the context of changes in the international economic system as a whole. The decline here has largely resulted from shocks to the economy originating outside the South African economy, and is intimately related to the problem of secular stagnation which has beset the advanced industrial countries of Western Europe and North America in the past ten years or more. And, just as in the case of some of these advanced industrial countries, where it has spawned Thatcherism and Reaganism, this has had a major impact on economic policy in South Africa.

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1) Indeed, it is arguable, that as a country at a much earlier stage of development than the advanced industrial countries, there has been the possibility here of responding by making better use of the country's relatively cheaper labour resources, which in the particular case of South Africa has meant changing the racial division of labour, partly through a shift in the geographical distribution of manufacturing activity from the major industrial areas to the less heavily industrialised parts of the country; and that this has mitigated the impact of the changing structure of international competitiveness. Also it has been suggested that the use of regional incentives may be an effective way of circumventing GATT rules on subsidisation of exports.

W.W. Rostow (1978) the well known neo-classical theorist of the process of economic development, has interpreted the rise of the new classical economics and its Thatcherite policy implications essentially as a political revolt against continual increases in public expenditure when private real incomes are stagnating. That is, he sees it essentially as the consequence of a taxpayers' revolt, and whatever its economic consequences, it has thus far been a great political success. This applies equally to South Africa, where these tendencies have been intensified by racial conflict and rapid political change. In the context of slow economic growth, however, the conflict has not simply involved questions of the size and allocation of government expenditure, but also the distribution of income in general as partly determined by the organisational activity and bargaining strength of workers.

In the South African context there was apparently a significant increase in the organisational activity and bargaining strength of Black workers in the 1970s, culminating in the industrial relations reforms following the Wiehahn Committee report of 1979. In these circumstances, regional policy may be seen as one component of a general strategy of exposing industry and workers in the major industrial centres to greater competition both from abroad and within the country, in an attempt to counteract the potential impact of these political changes. Amongst the most important aspects of government policy in this respect, in my view, are those relating to foreign exchange markets and foreign exchange.

Without attempting to argue the case in detail, it is noteworthy, for instance, that by contrast with the 1920s when the proportions of the Poor White problem were growing steadily and the government adopted its protectionist "South Africa First" policy, there is strong political support today, when the rate of unemployment particularly (but not only) amongst Blacks is showing a long-term tendency to increase, for a more open trade policy. This, I would argue, cannot be justified, taking account of the currently highly protectionist nature of the international economic system, the magnitude of the problems of adjustment with which South Africa is faced, and the severity of the current recession. In my view, it can be understood only in terms of the need to discipline industry and labour.

Regional policy, as I have suggested, should be seen as but one aspect of this overall approach in a period of slow economic growth and comparatively rapid political change. It is intimately connected, however, with other aspects of the current approach to economic policy. For instance, a more open trading system tends to intensify the problem of foreign competition, and hence to accelerate the process of industrial decentralisation. Any shift towards a more outward looking trade policy, such as that currently favoured in certain influential circles, combined with the greatly increased package of regional incentives, would thus both tend to reinforce the trends noted above and intensify the greater relative impact of the long recession on workers in the metropolitan areas.

In view of the slow overall rate of growth of employment accompanying it, the general tendency towards industrial decentralisation and the relative improvement in the employment position in border and Black areas which it represents, is clearly not an unmixed blessing. Indeed, as the discussion above suggests, any forces which tend to induce industrial decentralisation by at the same time tending to reduce the overall rate of growth of employment<sup>2)</sup>, are not favourable either to workers in the metropolitan areas or to those in the industrial periphery. For any factors which adversely affect the growth rate of employment and incomes in the country as a whole will tend to retard the improvement of living standards of

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1) The shift of the budgetary burden of certain public expenditure from central government to local authorities, particularly in the case of metropolitan areas, which is also mooted at present, will provide a further, direct disincentive to expansion in the main industrial centres. This will tend to increase the vulnerability of industry in the metropolitan areas relative to competition from the border and Black areas.

2) These would include, for instance, increased foreign trade competition (especially as aggravated by a more open trade policy); as well as direct controls on the use of Black labour in the metropolitan areas via restrictions on the physical movement of workers by means of influx control as such, and on the freedom of employers to hire labour from the homelands via such devices as the Physical Planning Act and Coloured labour preference policy in the Western Cape etc.

workers as a whole, wherever in the country they may be situated<sup>1)</sup>. The regional financial incentives on their own would not have as adverse an effect on the overall rate of growth of employment as the other factors referred to above<sup>2)</sup>, but they would nevertheless weaken the relative bargaining position of workers in the metropolitan areas by exposing them to competition from a larger body of workers subject to lower wage rates and more restrictive industrial relations legislation.

Thus, quite apart from any contribution it may make to the physical separation of the races on a geographical basis, regional policy has a political effect as a constraint on the organisational and other activities of Black labour in the metropolitan areas. Thus, whereas in the earlier stages of regional economic policy, in the latter 1950s and 1960s, it was perhaps correct to see its role primarily as that of increasing the security of Whites by reducing the number of Blacks in the metropolitan areas it is questionable whether it is plausible to see it in this light today. An extra political dimension seems crucial and indeed predominant now. Thus whereas the functions of regional policy remain "political" in a sense, the role of the policy appears to have been completely transformed. No longer is it merely a "numbers game"; but rather a policy involving essentially qualitative mechanisms of control.

Looking at it in this way, makes comprehensible the government's persistence with this policy, despite economic decentralisation as such being utterly discredited as a means of significantly influencing the

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- 1) It seems possible to argue to the contrary on this particular issue only if one takes influx control and hence the number of workers confined to the homelands as absolutely given, and thus does not allow for the possibility, which clearly exists otherwise, of workers in the industrial periphery migrating to jobs in the core.
  - 2) This is especially the case in so far as they represent income transfers from taxpayers to industrialists, rather than deadweight losses.

geographical distribution of the Black population<sup>1)</sup>. The rate of development of manufacturing employment and output in the industrial periphery required to serve this particular function of regional policy is much smaller than that needed for the policy of economic decentralisation to make a significant contribution to territorial segregation. Substantial but not massive industrial development in the border and Black areas is enough to contribute significantly, along with an open trade policy and other measures, to the discipline of industry and workers in the metropolitan areas. This view of regional policy is consistent with the prevalent philosophy of our economic policy makers, in which the alleged merits of maximum exposure of participants in various markets to competition are central. It enables one to make sense of regional policy without having to assume that government really does aim to stem the flow of Blacks to the cities by economic rather than other means, but is ignorant of or unwilling to accept the implications of the insuperable obstacles to the attainment of this goal<sup>2)</sup>.

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- 1) Various other possible functions of economic decentralisation policy are sometimes also mentioned including, for instance, the closely connected aims of legitimating homeland governments and of co-opting the Black middle classes in the homelands. The first of these functions, however, seems unlikely to be adequately fulfilled by "window dressing". Indeed, in order to give legitimacy to the homelands policy, in the eyes of both urban and rural Blacks, it is virtually certain that reliance on economic decentralisation (as distinct from coercive measures) would need to be increased substantially, to practically unattainable levels.
  - 2) It also enables one to see that the obvious inevitability of having to rely on coercive measures to check the movement of Blacks to the cities is not inconsistent with the basic function of the policy, and indeed, in so far as such measures increase the volume of unemployment in the homelands and thus affect wage rates and labour supply there, they are actually consistent with it.

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