

Southern Africa Labour and Development Research Unit

THE ECONOMIC IMPLICATIONS OF THE  
RIKHOTO JUDGEMENT

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### The Economic Implications of the Rikhoto Judgement\*

It will be assumed in this study that the Appeal Court's judgement in the Rikhoto case has restored the 'exemption' route to permanent urban residence for those admitted to the urban area outside the homelands in terms of Section 10(1) (d) of the Urban Areas Act. In order to qualify for exemption, a worker has to have worked 10 years continuously for one employer or 15 years for more than one; exemption implies the right to bring to the urban areas a wife and children under 18 who are admitted under 10(1) (c). A situation where this route exists is contrasted with one in which it is blocked and the economic implications of the Rikhoto judgement are deduced from this juxtaposition.

The assumption corresponds to a liberal legal and administrative interpretation of the Rikhoto judgement. To the extent that the judgement is interpreted conservatively (as has been announced at the administrative level) the quantities estimated in this paper (whether demographic or economic) will be too great and downward revision will be appropriate.

This study is divided into five parts :-

- (i) an estimate of the size of the immigration there will be into urban areas outside the homelands following the Rikhoto judgement;
- (ii) A discussion of the economic implications for those now entitled to 10(1) (b) rights and their immediate dependants;
- (iii) a discussion of the economic implications for employers;
- (iv) a discussion of the economic implications for government spending;
- (v) conclusions.

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1. IMMIGRATION

Table 1 sets out official estimates of the number of black migrant workers (10 (1) (d)'s) outside the homelands from 1975-1981:

Table 1

1975	1 050 000
1976	1 070 000
1977	1 095 000
1978	1 100 000
1979	1 090 000
1980	1 217 000
1981	1 329 000

Sources : 1975-79, National Manpower Commission 1981  
1980-81, S A Institute of Race Relations 1982 Survey.

The annual compound growth rate between 1975 and 1981 was 4,0%p.a.

Table 2 sets out the age and sex structure in 1980 of black men and women living as single people in cities and towns outside the homelands. People are divided according to whether they are of South African (including independent homelands) or foreign origin. The majority, but not all, of these people will have been admitted to the urban areas under Section 10(1) (d). A minority are Section 10(1) (a) or (b) people or illegals. Table 2 also contains the proportion of men who are married or widowed in each age category.

Table 2

<u>Age</u>	<u>Males</u>		<u>Females</u>		<u>Males</u>
	<u>Domestic</u>	<u>Foreign</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Married or</u> <u>Widowed</u>
	(1)	(2)	(3)	(4)	(5)
15-19	83100		25800		
20-24	235300		72200		
25-29	217400		72800		0,58
30-34	170800		55800		0,80
35-39	109400		41000		0,84
40-44	91100		36400		0,89
45-49	62600		27600		0,89
50-54	53600		24000		0,91
55-59	30300		12500		
60-64	20900		8800		
65-69	5600		2800		
	1080100	136000	379700	8700	
	1216100		388400		
		1604500			

Sources: Columns (1)-(4): Table 5 on pp71-74 of C E W Simkins, Four essays on the past, present and possible future of the distribution of the black population of South Africa, SALDRU, 1983. Column (5): Marital status data from the Current Population Survey.

Assumptions have now to be made. These follow with their justifications.

- (i) There are 1,437,000 migrants in 1983 assuming a growth rate of 4% p.a. compounded from 1981.
- (ii) The probability of being eligible for or having been granted section 10(1)(b) rights varies with age. Actually the critical period is length of continuous employment but no data are available on this, so age is used as a proxy.

Clearly no-one under 25 can attain 10(1) (b) status since it takes at least ten years to acquire. Thereafter people do begin to qualify, so it is assumed that 1/8 of the 25-29 age group qualify, 3/8 of 30-34 age group, 5/8 of the 35-39 age group, and 3/4 of the older age groups. Clearly some people never qualify because of interrupted service - the final estimate of 1/4 for the old age groups might be conservative.

- (iii) Granting of section 10(1) (b) rights stopped in 1978, ten years after the 1969 regulation came into force. This is not quite the case since 15-year qualifiers could have received them after 1978. It will be assumed, however, that the Rikhoto judgement requires Administrative Boards to deal with a five-year backlog. It follows that the proportion of new qualifiers in each group is

25-29	1/8		
30-34	3/8 - 1/8	(already qualified in 1978)	
35-39	5/8 - 3/8	(	"
40-44	3/4 - 5/8	(	"

- (iv) foreigners, as defined, are excluded. It is assumed that the number of foreigners was the same in 1983 as 1980 viz. 145,000 so we are dealing with 1,292,000 domestic 10(1) (d) 's. It is also assumed that the age-sex structure of domestic migrants is the same as single domestic people as set out in Table 2.

It follows from these assumptions that the Rikhoto judgement has created the right for 130,000 Section 10(1) (d) workers to obtain Section 10(1) (b) status. This change in status would not, of course, imply any new immigration into the urban areas since to qualify people must already be present there.

The right of 10(1) (b) workers to bring dependants to town under Section 10(1) (c) will create new immigration and an estimate can be made of the likely extent of this immigration. Men and women are

considered separately and the following assumptions made:

- (v) only married and widowed men have dependants (ie wives in the case of married men and children under 18). The children of unmarried and divorced men are practically always dependants of their mother. Using the data in Table 2 it follows that 74 000 of the new male qualifiers would have dependants. Studies of migrant workers have shown that by no means all the men who have dependants want to bring them to town. The motives for not wanting to include the perception of urban townships as tense, crime-ridden, immoral and overcrowded as well as the desire to keep a homeland 'place' for retirement. Furthermore in conditions of severe housing shortage in the townships, not everyone who wishes to bring dependants can do so. It is assumed that 2/3 of qualifiers will want to bring dependants to town and of those that want to 1/2 will be able to. If each male brings in 5 dependants this implies immigration of 123 000 people.
- (iv) Women are all assumed to have dependants, Because there are a high proportion of never married, widows and divorcees in the single women population in towns and cities and because many of these will be working as domestic servants, it is assumed that 1/2 of women qualifying will want to bring in dependants and 1/3 of those will be able to do so. If each woman brings in 4 dependants (no husband) this implies an immigration of 22 000 people.

Total once-for-all immigration as a result of 'clearing the backlog' is estimated at 145 000 people or 2,4% of a total urban black population outside the homelands of 6 million, a very modest increase.

The annual increment from now on would be roughly  $1/5 \times 130\ 000 = 26\ 000$  10(1)(b) qualifiers and an associated immigration of 29 000 dependants. This figure will increase by 3-4% p.a.

## II ECONOMIC IMPLICATIONS FOR INDIVIDUALS INVOLVED

Schneier, in a recent study on occupational mobility, concluded: 'Legal status thus emerges as having a powerful influence on the occupational opportunities available to work seekers, and to the chances of upward mobility from initial occupation .... It appears therefore that Blacks with permanent residence rights in urban areas... will increasingly move into more skilled occupations where shortages occur.' (p.72)

The most important implication of attaining Section 10(1)(b) rights for the individual involved is greater occupational mobility, implying a greater chance of access to the more desirable jobs. This works in two ways. First, permanent urban residents may switch jobs and endure spells of frictional unemployment legally and free from fear of being sent to the homelands. Job switching, although seen as 'choosiness' by the Riekert Commission, very often represents a search by the worker for the job in which he will be most productive and earn the highest wage. Such a search is economically rational and can be expected to have social as well as private gains resulting from a more nearly optimal disposition of economic resources. The South African economy pays a considerable, though invisible, price for the restrictions placed on the mobility of Section 10(1)(d) workers; to the extent that 10(1)(b) workers diminish the ranks of 10(1)(d) workers this price is reduced.

Secondly, an individual who has attained, or is likely to attain in the near future, Section 10(1)(b) rights will be seen by employers as a better training prospect, ceteris paribus, than a Section 10(1)(d) worker without the chance of qualifying. The quasi-permanency of the call-in card system has improved somewhat the prospects of the latter class; but this degree of stabilisation is necessarily inferior to that implied by permanent residence. Schneier shows that education and training have a great influence on upward mobility especially for those with permanent urban rights. It follows that there is a secondary effect - greater education and training - which powerfully reinforces the primary advantage - greater freedom to choose - accruing to those with permanent urban status.



It may be objected that all that is involved here is one group of Section 10(1)(d) workers (the(1)(b) qualifiers) gaining ground at the expense of the other with no net advantage for the two groups taken together. This would imply a 'jobs queue' account of the labour market as advanced (most notably) by Thurow. To make this account work, one would have to assume that the jobs actually filled were the same in situations with and without the Rikhoto judgement. In the context of the contemporary South African skills shortages (where the supply of labour is very limited to jobs with higher levels of skill and education) this is not likely to be the case. With the mechanisms already discussed Section 10(1)(b) workers may be advanced to jobs that no-one could fill before. To the extent that they are, and no longer compete with 10(1)(d) workers, the interests of both groups will be served.

There is also the position of dependants to be considered. Wives of Section 10(1)(b) male workers, in particular, will find themselves in a very different position. Only 14,5% of women (aged 15-64) in the homelands worked in 1980 compared with 43,1% in towns outside the homelands and 46,5% in cities (Simkins, p.127). So the chances of a woman working in town is about three times as great as it is in the homelands. The difference arises from the fact that employment opportunities for women are more plentiful in town (traditional 'crowding' of female employment into commerce and services is being eroded by expansion of female employment in the manufacturing and finance sectors - Simkins, p.126) and that, as a consequence, homelands specialise (partly perforce, partly by choice) in the provisions of creche functions. This situation would change greatly were influx control abolished altogether, but it will be little altered given the small amount of movement expected as a result of the Rikhoto judgement.

The greater chance of employment for wives will further add to the improvements in the living standards of new Section 10(1)(b) qualifiers who choose and are able to bring their families with them.

The position as regards children will vary according to whether the children were born before or after a family comes to town. Those born before the move will fall under Section 10(1)(c) until the age of 18; thereafter, if they are to be legally in town they must be admitted under Section 10(1)(d) until they qualify for Section 10(1)(b) rights. Even so, children in such a position will have advantages over children brought up in rural areas or homelands. They will have the advantage of better educational facilities as well as a range of urban contacts through whom work can be sought thus widening the scope of choice as compared with people brought up in the homelands with few contacts.

Those Section 10(1)(b) qualifiers who are able to bring their families with them to town will experience a reduction in the cost of living, associated with the merging of households formerly split. This can be illustrated by referring to the Bureau for Market Research's February 1983 estimates of the Minimum and Supplemented Living Levels. In Johannesburg, the MLL and SLL for a family of five at that date were R269,74 and R353,47 per month respectively. Suppose this family were to be split into a married male living in a hostel and a family of four in the township; the new MLL and SLL would be R289,94 and R398,41 per month (excluding the 'support' item from the man's MLL and SLL), an increase of 7,5% and 12,7% respectively. It is sometimes argued that the subsistence requirements of households in rural areas are lower than in urban areas; this does not seem to be the case in homelands if Clark and Ngobese's study (1975) of Nqutu in Kwazulu is representative. Prices of necessities are higher in small rural stores than in urban supermarkets; and the fact that some rural people may be able to produce some of their necessities for themselves represents additional income rather than a lower cost of subsistence. This additional income, too, can generally be expected to be less than the part of the household in the homelands could earn if it lived in town instead. It follows that the savings from household mergers in town are likely to be somewhat higher than figures based solely on Johannesburg suggest.

Immigrants under Section 10(1) (c) will enjoy a greater range of services and amenities in town than they would in rural areas. Sometimes (as in the case of services and amenities provided by the private sector) these will be paid for by the immigrants themselves; in other cases they will be 'free riders' in respect of public goods; in yet other cases, the services and amenities must be financed by central or local government at the cost of taxpayers and ratepayers. More will be said about this last category in Section IV.

Finally, there is an administrative requirement that Section 10(1) (d) workers return to their place of origin each year to renew their contracts of employment. This clearly involves many workers in a trip they would not otherwise make and so imposes costs on them. Qualification for Section 10(1) (b) rights removes this imposition. It is not implausible to suppose that on average a worker spends R50 a year more than he otherwise would have (many would spend more; others would spend little, working in an annual holiday with the trip). If 130,000 persons now qualify for Section 10(1) (b) rights, this would involve an annual saving of R6,5 million for this group alone.

### III ECONOMIC IMPLICATIONS FOR EMPLOYERS

There are several implications of the Rikhoto judgement for the private sector. These will be discussed in qualitative terms; they are not thereby less important than those implications which lend themselves to quantitative treatment.

The first implication is that it enlarges the labour supply available to employers since some 10(1) (c) immigrants will want to work. I have argued elsewhere (Simkins 1983b) that existence of the labour bureau system which keeps a large number of workseekers in the homelands until they are requisitioned, makes the labour supply look smaller to urban employers than it really is, thus contributing to unemployment. People who can present themselves at the factory gate are able to send the necessary signals to make the labour market work efficiently; people who can't but want to work are prevented from sending the signals. Every employer must welcome a more abundant labour supply which enables him either to lower wages or to pick more selectively from applicants. Of course, it follows from section I that the increase will be a modest one with correspondingly modest effects.

The second advantage to employers of an increase in the permanent urban labour supply is a reduction in the difficulties of recruitment. A legal permanent urban resident is much easier to hire since no requisitioning is involved. Also, it is easier to appraise applicants in town than in the country; costly mistakes in hiring are therefore less likely.

The third advantage relates to Section 10(1) (d) workers aiming for Section 10(1) (b) rights, workers with Section 10(1) (b) rights and dependants under Section 10(1) (c) who wish to work. Permanent urban residence or the prospects thereof, with the prospects of more stable employment, will lead risk-averse workers to invest more in their general education than they would with the expectation of permanent 10(1) (d) status for as long as they wished to, or

could get work. This change in attitude towards education on the part of workers can only be welcome in an environment where shortage of skills and formal education is substantial.

The fourth advantage is that permanent urban residents can be more easily assimilated into an equal opportunity environment which it is now the policy of many foreign-owned and South African firms to establish. In order to achieve its aims such a policy must constantly seek to increase the scope of equal opportunity. The Rikhoto judgement itself does just that, which it is why it will earn approbation from both foreigners and the people affected by it. Firms will also have new opportunities in its wake.

Fifthly, a change from Section 10(1)(d) status to 10(1)(b) status removes the requirement of a worker that he travel to his place of origin each year to renew his contract. This removal involves savings for employers as well as workers; often special leave has to be given to attend to this requirement at a time dictated not by convenience but by the date of contract expiry. The cost of this to the employer is foregone net production.

Finally, the Rikhoto judgement will, in a modest way, contribute to the spread of urban life-styles and urban values. We look to education and training to make possible further development of the South African economy, and they will; but there is more to the creation of an industrialised work force than that. A new sense of time and of work is needed. So is a shift from an ascriptive status system to one that is achievement based; management skills can never be properly learned without it. Another aspect of urbanisation is an expanded sense of the range of human possibilities, one side of which is the development of greater ambition than before. All these changes are necessary before the full participation of black people in the economy is possible. Moreover, although this change and its consequences have been greatly feared, the spread of an urban culture which, to a great extent overrides ethnic differences, constitutes a basis for the political settlement South Africa so badly needs.

#### IV ECONOMIC IMPLICATIONS FOR GOVERNMENT SPENDING

It is not possible, within the scope of this study, to analyse all the implications of the Rikhotso judgement for the public sector. Attention will be confined here to the implications of the five 'welfare' categories of public expenditure, viz:

- (a) education
- (b) transfer payments: old age pensions and disability pensions only
- (c) health
- (d) transport subsidies
- (e) housing.

The additional expenditure associated with the movement of Section 10(1)(c) immigrants will be estimated. To get results, it is necessary to assume that all immigrants come from the homelands (in fact, a minority would come from 'white' farms) and to assume that, in some instances, conditions in urban areas are the same as in South Africa outside the homelands.

##### (a) Education

In South Africa outside the homelands annual expenditure per black pupil was budgeted at R125 for 1981/82; in the homelands the budget was R102 per pupil. (BENSO, 1980: Part I, Table 95; Part II, Table 60). As a proportion of people aged 5-19 school enrolments were lower outside the homelands than in them (where the proportion was 73%) because of very poor education in 'white' rural areas. It will be assumed that the proportion is the same in the urban areas as in the homelands (it can hardly be much higher). Then the additional expenditure is R23 per pupil transferred. Pupils transferred can be calculated:  $\frac{4}{5}$  (to exclude wives)  $\times 0,73$  (pupil proportion in age-group 5-19)  $\times 0,69$  (proportion of child dependants aged above 5)  $\times 123\ 000 = 50\ 000$  plus  $0,73 \times 0,69 \times 22\ 000$  (for dependents of women) = 11 000, a total of 61 000. Additional expenditure is R1,4 million per year, or R2,1 million if a factor of 50% is added to allow for the fact that urban education is better than that available in 'white' South Africa as a whole.

(b) Transfer Payments

There are no implications under this head since old-age pensioners will not be eligible to immigrate under Section 10(1) (c) and any disabled people will be dependants and so not eligible for disability grants.

(c) Health

It is difficult to assess the differential between per capita public spending on health in the urban areas and that on health in the homelands. Data from the Hospital and Nursing Year Book of Southern Africa 1982 and the 1980 Population Census suggests that the provision of hospital services per person (measured in patient-days per year per person) is only about 10% higher outside the homeland (all races) than it is inside. Of course, this is a crude measure since the sophistication of services outside the homelands is likely to be greater. Assume that expenditure in the urban areas is 50% higher per person than in the homelands. Data from the 1981 BENS0 Statistical Review (Part I, Table 107) indicate for the non-independent homelands per capita expenditure on health was R30. It follows that an additional expenditure of R15/person must be assumed for 145 000 people, a total of R2,2 million.

(d) Transport

The costs to the state of urban transport subsidies was R126 million in 1981/82 (Report of the Auditor and Controller General Part I 1981/82); revenue collected under the Black transport services levy was R16 million so the net state subsidy was R110 million. Not all of this was spent on black people; the greater part will have been. If the urban population rises by 2,4% this implies a further subsidy of  $2,4\% \times R110 \text{ million} = R2,6 \text{ million}$ . Insofar as transport requirements over subsidised routes are reduced by the ending of the necessity of Section 10(1) (d) workers to travel to their places of origin on attainment of Section 10(1) (b) status, the level of state spending on transport subsidies will drop.

(e) Housing

Housing in rural areas is entirely private and involves no subsidy from the state. Housing in urban areas is state-subsidised as is the provision of sites. There is also a substantial, if often informal, private housing sector in the urban areas. Given the substantial backlog in the provision of publicly-owned housing it does not seem likely that more than one-third of immigrant households will occupy such houses. It is assumed that the rest will distribute themselves between site and service schemes and the private market in equal proportions.

If a small house is valued at R12 000 at present, and a serviced site at R4 000 and if it is assumed that the annual rental payments will be set at 5% of the value of house and site respectively and that the cost of funds is 14%, the total state subsidy increase associated with the immigration can be calculated as follows:

$$(i) \text{ no. of male-headed families} : \frac{2}{3} \times \frac{1}{2} \times 74,000 = 25,000$$

$$(ii) \text{ no. of female-headed families: } \frac{1}{2} \times \frac{1}{2} \times 33,000 = \frac{5,000}{30,000}$$

$$\underline{\text{Subsidy to families in houses}} : (14-5)\% \times R12000 \times 10000 = R10,8 \text{ million}$$

$$\underline{\text{Subsidy to families on sites}} : (14-5)\% \times R4000 \times 10000 = R3,6 \text{ million}$$

$$\underline{\text{Subsidy to families in private housing}} : \text{NIL}$$

$$\text{Total} = R14,4 \text{ million.}$$

Brought to 1983 prices the total additional annual expenditure is:

Education R2,6 million

Health R2,9 million

Transport R3,2 million

Housing R14,4 million

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R23,1 million, say R25 million

It follows that the further additions arising from the annual grant of 10(1) (b) rights each year would be about R5 million per annum rising



by 3 or 4 per cent each year.

It is worth noting that, insofar as increased expenditures are financed by increased taxation, there will be an element of redistribution of income from taxpayers of other races to black people. The entire sum will not be so redistributed, however, since black people are taxpayers too. M.D. McGrath estimates the share of tax paid by black people on 'intermediate assumptions' at 16,2% in 1975/76 and the share has certainly risen since then in the wake of continuing redistribution of pre-tax income from white to black people. Depending on which taxes were increased the black contribution to the additional expenditure would be greater or less.

#### CONCLUSIONS

The main conclusion of this paper is that, in a country where Gross National Product was about R76 000 million in 1982, the economic implications of the Rikhoto judgement are very small. The demographic and economic changes are easily affordable and would bring considerable benefits to both the individuals involved and to employers. Indeed, this study points beyond itself to advocating relaxations of influx control (other than the Rikhoto judgement) which would bring further benefits of the kind discussed at moderate cost. Further thought directed towards a programme of relaxations leading to abolition would not, therefore, be wasted.

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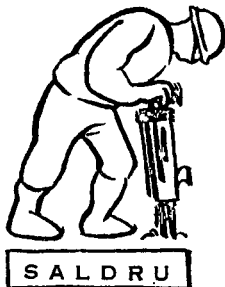
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## **SOUTHERN AFRICA LABOUR & DEVELOPMENT RESEARCH UNIT**

To anybody interested in what is happening in Southern Africa at the present time, it is clear that an understanding of changes taking place in the field of labour is crucial. The whole debate about the political implications of economic growth, for example, revolves very largely around different assessments of the role of black workers in the mines and factories of the Republic. Many of the questions with which people involved in Southern Africa are now concerned relate, in one way or another, to the field generally set aside for labour economists to cultivate. The impact of trade unions; the causes of unemployment; the economic consequences of different educational policies; the determination of wage structures; the economics of discrimination; all these and more are matters with which labour economists have been wrestling over the years in various parts of the world.

At the same time there are many who would argue that these issues are far wider than can be contained within the narrow context of 'labour economics'. These issues, it is pointed out, go to the heart of the whole nature of development. In recent studies, commissioned by the International Labour Office, of development problems in Columbia, Sri Lanka, and Kenya, for example, leading scholars have identified the three crucial issues facing these countries as being poverty, unemployment, and the distribution of income. Thus the distinction between labour and development studies is becoming more blurred as economists come face to face with problems of real life in the Third World.

It is here too that an increasing number of people are coming to see that study of the political economy of South Africa must not be done on the assumption that the problems there are absolutely different from those facing other parts of the world. Indeed it can be argued that far from being an isolated, special case, South Africa is a model of the whole world containing within it all the divisions and tensions (black/white; rich/poor; migrant/nonmigrant; capitalist west/third-world; etc.) that may be seen in global perspective. Be that as it may, the fact remains that the economy of Southern Africa (for the political and economic boundaries are singularly out of line with each other) is one of the most fascinating in the world. It is one on which far more research work needs to be done, and about which further understanding of the forces at work is urgently required. It is in order to attempt to contribute to such an understanding that SALDRU is issuing these working papers.



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