

HAIDER ALI KHAN

The Political Economy
of Sanctions Against
Apartheid

The Political Economy of Sanctions Against Apartheid

Contents

List of Tables and Figures	ix
Preface	xi
1 Introduction	1
2 The International Political Economy of Apartheid	5
3 The Logic of Sanctions and Some Modeling Issues	21
4 An Analysis of Trade Sanctions	31
5 Disinvestment	61
6 Conclusions	73
Appendix	79
References	107
Index	113

Tables and Figures

Tables

2.1	Wage Structure for Nine Sectors	16
3.1	A Basic Input-Output Transaction Matrix	27
3.2	Extension of Input-Output Transaction Matrix to a SAM	28
4.1	Current Western Sanctions Against South Africa	32
4.2	Format of the South African SAM	38
4.3	Total Output Multipliers for Nine Main Sectors	42
4.4	Total Employment Loss for \$1 Million of Export Embargo	43
4.5	Impact on Employment of R1 Million of Export Embargo	44
4.6	Scale of Percentage of Employment Loss for Export Embargo	45
4.7	Impact of Sanctions on Capital and on Categories of Labor	47
4.8	Impact of Sanctions on Household Income Distribution	49
4.9	South Africa's Major Exports and Imports, 1986	54
4.10	Concentration of South Africa's Trade	54
4.11	Individual Countries' Exports to South Africa	55
4.12	Individual Countries' Imports from South Africa	55
4.13	Schematic Representation of Endogenous and Exogenous Accounts in a SAM	55
5.1	U.S. Companies That Have Ended Ties to South Africa	62
5.2	Investment and Financial Sanctions of Selected Nations	66

Figure

6.1	Schematic Diagram of Economic Sanctions	75
-----	---	----

Preface

This book revolves around two themes. One is how to think about economic sanctions and their impact in general. The other is the question of what impact economic sanctions might have on the apartheid system in South Africa.

Like many of life's small adventures, writing the book was the result of a series of incidents apparently unconnected. Alan Gilbert, at the University of Denver's Graduate School of International Studies, first stimulated my interest in analyzing the apartheid regime in South Africa some thirteen years ago. Contact with a number of African students and scholars led to a deepening of my interest over time. Later, when I returned to GSIS to teach, George Shepherd encouraged me to develop my ideas regarding economic sanctions and South Africa. While I was at Cornell, Erik Thorbecke and I worked extensively with the Social Accounting Matrix-based models, and it occurred to me then that here was a tool that could be used to study the impact of at least some kinds of sanctions.

Quite accidentally, at Sapporo, Japan, in the summer of 1986, I met David Mullins, who together with a U.S. team led by J. Eckert had succeeded in constructing the first SAM for South Africa. I waited impatiently for the SAM to be cleared by the government in Pretoria; by the time it was, I had in mind a good outline of the conceptual and empirical aspects of the project, and went to work as soon as the SAM was in hand.

Since then so many people have helped in so many ways that it is impossible to mention them all by name. I must acknowledge, though, the group of people who have been especially supportive and have helped with constructive criticisms: at GSIS, George Shepherd, Ed Hawley, David Levine, Alan Gilbert, Mustapha Pasha, Oscar Plaza, Eiichi Hoshino, and John Grove participated in seminars and discussions about the project. Oscar Plaza also provided valuable research assistance. Charles Becker and William Kaempfer, at the University of Colorado at Boulder, read parts of the various

draft manuscripts. Tom Willett at Claremont Graduate School encouraged me to present the results of my research in 1987 at the Western Economic Association Conference. Steven Keuning went to the trouble of sending me his comments from the Netherlands. On several occasions I discussed my research with James Mittelman and Linda Yaar, both of whom made helpful comments. Dean E. Thomas Rowe of GSIS attended cheerfully several of my Economics of Sanctions seminars at GSIS. Finally, comments from an unknown referee were helpful in preparing the final version of this book.

Part of this and my other research on South Africa has been supported by a Ford Foundation grant to the University of Denver. I am grateful for the financial support.

The staffs of university libraries often go unacknowledged for their crucial but silent help. I am especially grateful to all those at the Penrose Library who gave me the resources they had to offer.

Lynne Rienner and her staff were most helpful. I am truly thankful to them.

This book addresses the immediate question of the impact of economic sanctions on South Africa; I hope it also breaks new ground in analyzing economic sanctions in general. A novel rationale for sanctions is presented: the concept of the *induced* effects of sanctions should be helpful in understanding what sanctions can or can not be expected to accomplish. The economic aspects of the link between *economic* sanctions and *political* change are addressed via the use of some economic models, notably the one based on the Social Accounting Matrix. Economy-wide modeling is a new and promising area, and models based on a SAM can be particularly valuable for the amount of detail available. I hope that my research in this area will generate further studies of the impact of sanctions in an economy-wide setting.

It should be pointed out that the SAM framework can be and has been used for other purposes. For example, it can be used to estimate the impact of various social welfare policies on various target groups. My hope is to see the SAM increasingly used to enhance the quality of life of all South African people.

—Haider Ali Khan

1

Introduction

This book is about economic sanctions and their effects. The starting point is the recognition that realistic economic models based on reasonable theories of the economy are necessary in order to analyze the effects of sanctions. Pursuing this point of view leads toward the formulation of some new models for understanding the impacts of trade and investment sanctions. Throughout the book, the methods and models are applied to one particular country—the Republic of South Africa.

To a pessimist, the debate on economic sanctions against South Africa might have the appearance of a Nietzschean eternal recurrence. The phenomenon seems to return with a remarkable regularity; the issues debated previously reappear and are discussed with high moral passion until all is quiet again, and then reemerge. It looks as if nothing can ever be resolved. In 1964, in the introduction to a volume titled *Sanctions Against South Africa*, the editor remarked that *until then*:

Most exponents . . . of economic sanctions—as most antagonists—were issuing proclamations from postures of principle. Those who wanted sanctions dismissed all arguments against them as trivial or irrelevant, while those who opposed such action denounced it as illegal, impractical, and economically calamitous.¹

By that time, the question of policies against apartheid had already been on the U.N. agenda for more than ten years. A look at the present debate on the same issues shows that the passage of time—in this case more than two decades—has not diminished the fervor of these ex cathedra sermons. Yet much work has also been done, and some of it has generated light as well as heat. Consequently, one need not fall into the commonplace cynicism, *plus ça change plus c'est la même chose*.

It must be admitted, however, that even now there are some important lacunae in the literature—lapses best revealed in the public debate on sanctions. Groups both inside and outside South Africa argue for and against

sanctions in almost an empirical vacuum; to say that empirical analyses of sanctions are rare is an understatement. Recent research, however, has begun to change that; for example, work by Becker, Kaempfer and Lowenberg, and Merle Lipton.² Such research fills many important gaps—and points to further investigation of economic impacts. The urgency of the situation in South Africa makes it imperative to investigate the empirical issues as comprehensively as possible.

A number of economic and political economic models on sanctions are now available, and these are discussed or referred to in this book at appropriate places. Many of them reach interesting conclusions regarding the rationale for and the impact of sanctions. However, they suffer from two major limitations. One is the schematic nature of the models: because they are usually two- or three-sector models, any detail within the sectors is lost. Second, they are neoclassical models with full employment, complete substitution of factors, and utility-maximizing consumers. If the model is to reflect reality, many or all of these assumptions must be relaxed.

Spandau, a South African economist, relied, in 1979, on an input-output analysis in the open Leontief framework and reached conservative conclusions regarding the impact of sanctions against South Africa.³ In the same year, Richard Porter, an economist from the University of Michigan, published an article on the subject,⁴ using a different model and different data; his conclusions, not surprisingly, are very different from those of Spandau. In this book, I have used a model that is a generalization of Spandau's approach. My data, though more consistent and recent than Spandau's, are similar to his in terms of categories covered. My conclusions are markedly different; if they are correct, trade and investment sanctions could inflict considerable damage on the South African economy. I derive theoretical and empirical results from several other models as well, allowing both more detail and a check on the particular biases of a single model.

A few words about method may be helpful to the reader. In studying sanctions, my approach is one of descending from the abstract to the concrete and from the general to the particular. That is why, after a brief background chapter in which apartheid is defined and the reasons for its existence are explored, I first deal with the question of the political economy of sanctions in general.

Toward the end of Chapter 3, I introduce one of my specific modeling devices—the Social Accounting Matrix (SAM)—in order to study a specific type of trade sanction, namely, boycotting South African products. This is the first published SAM for South Africa. In the next chapter, the fixed price model based on the SAM is used to examine the South African case. In addition, the question of sanctioning exports to South Africa is taken up in the context of several analytical models. The same kind of analytical work supplemented by recent disinvestment data forms the core of Chapter 5.

Chapter 3 develops the idea that past thinking about the effectiveness of sanctions has been extremist, in the sense of setting goals that are too stringent for sanctions to accomplish. That is, holding sanctions directly responsible for the undoing of a set of policies may have led to the dominant view that sanctions do not work. Setting less lofty and more indirect goals for sanctions in general, and economic sanctions in particular, might change that. I argue that, indeed, that is the proper perspective to take, that sanctions may have indirect political effects in inducing the target country to negotiate: the political impact of sanctions follows their real or anticipated economic effect. The *induced* effect can then be turned to good account through skillful diplomacy. The logical first step in this kind of approach is to investigate potential economic impacts, and that is what this book sets out to do.

It turns out that, in the short run, banning exports will harm the South African economy substantially; the overall multiplier impact is about four, which can be interpreted as one dollar's export ban leading to almost four dollars' decline in output in South Africa. Corresponding decreases in employment and incomes will follow. It is important to note that *all* groups within South Africa will suffer. In terms of loss of income, however, capital will suffer more than will labor, and white workers will lose more than will the Africans.

The details of modeling and a large array of quantitative estimates of the impact of sanctions are given in Chapter 4. These quantitative results, as well as a critique of earlier analyses, show that trade sanctions will probably be much more effective in the case of South Africa than has been previously assumed.

Analysis of the recently available data on disinvestment shows the short-run economic effect of this type of sanction is dubious. By and large, the form of disinvestment used so far has done little to harm the South African economy. In many cases, it has enriched white South African managers and entrepreneurs. This is not to say that disinvestment has had no symbolic value. However, inasmuch as it has had so little economic impact, the option of deploying an argument for creating short-run economic motivations for change in South Africa through disinvestment is foreclosed. There may still be noneconomic effects, but these are outside the scope of this book. In the long run, even the current set of policies will harm the economy. Hence, efforts to convince South African policymakers that apartheid should be dismantled by pointing out the long-run consequences of disinvestment will be well taken.

Finally, there is the issue of how economic effects of sanctions are linked to political responses in South Africa. There are actually two parts to this issue: On the one hand, there is the question of how the various groups in the society at large are affected, including various strata of Afrikaners, non-Afrikaner whites, and the majority group—the Africans themselves.⁵ On the

other hand, there are the ruling groups and parties in the government. Responses at the level of both state and society in general are relevant. This kind of analysis is really the more difficult task, and the problem may easily become intractable. This book stops short of an extensive political investigation. The economic analysis, however, can be viewed as providing the necessary data that any future political (or politicoeconomic) study of sanctions against South Africa will need to take into account. The economic results presented here are rigorous, and based on the most comprehensive and consistent available data set. Using these results as premises, we can deduce one interesting inference regarding the response to sanctions: Contrary to the claim that economic sanctions may lead to an isolationist South Africa, such a response is highly unlikely given the economic implications of isolation.

Notes

1. Ronald Segal, ed., *Sanctions Against South Africa* (Baltimore: Penguin, 1964), 7.

2. C. Becker, "The Impact of Economic Sanctions on Southern Africa," *World Politics* (January 1987): 147-173; W. H. Kaempfer and A. D. Lowenberg, "A Model of the Political Economy of International Investment Sanctions: The Case of South Africa," *Kyklos* 39 (1986): 377-396; Merle Lipton, *Sanctions and South Africa: The Dynamics of Economic Isolation* (London: Economist Intelligence Unit, 1988).

3. A. Spandau, *Economic Boycott Against South Africa* (Capetown: Juta, 1979).

4. Richard C. Porter, "International Trade and Investment Sanctions: Potential Impact on the South African Economy," *Journal of Conflict Resolution* 23, no. 4 (December 1979): 579-672.

5. In official parlance within South Africa, "Asians" and "coloureds" are separated from "blacks." Here, I have called all of them Africans. Later, when official statistics are used, the official categories become unavoidable. It should be understood that such later use is in no way an endorsement of such categorization.

The International Political Economy of Apartheid

How did the economy of South Africa develop the system of apartheid? It is an important question to ask. Not only can the answer serve as necessary background for the later chapters in this book, but, more importantly, an *analytical* answer can clarify considerably the prospects for success or failure of economic sanctions in the South African case. In the first part of this chapter, a historical sketch of the development of the South African economy pinpoints the formation of the system of apartheid over time and helps define apartheid as a concrete set of economic, political, and social practices. The second part continues the analysis, emphasizing the role of domestic and international forces operating in the South African economy and the implications of those forces.

The Development of Apartheid: A Historical Sketch

The system of apartheid in South Africa is unique in the contemporary world in its use of legal, institutionalized segregation by race in order to organize society by a racial-ethnic hierarchy at every level. Any attempt to analyze this social order must come to grips with the question of how such an arrangement could develop and sustain itself. At the outset let me borrow from Merle Lipton a definition of apartheid that is sharp and clear. She has identified four defining characteristics that separate apartheid from arbitrary developments of various discriminatory practices:

First, it is the hierarchical ordering of the whole social, economic and political structure of South African society on the basis of statutorily defined race. . . . Secondly, apartheid involves systematic political and economic discrimination against all blacks, but particularly against Africans. Thirdly, it involves segregation of the races not only politically and economically but also socially, particularly in housing and social services, including education and health care. Fourthly, apartheid is the

legalization and institutionalization of this hierarchical, discriminatory and segregated system.¹

Underlying the hierarchy are the historical facts of the development of capitalism, the political domination of the African population by the Afrikaners, and the influence of racist ideologies.

The first important factor—a necessary condition—that plays a role in the series of developments leading up to the present state of affairs is the amalgamation of white and nonwhite peoples in Southern Africa. The peculiarities of the conflicts between the earlier Dutch settlers and the latecomers from Britain defined part of the political dynamic leading to the present system as well. How did it all happen? I can only sketch an answer to this large historical question, but there are many books, covering both general and specific aspects of the history of South Africa, that the interested reader can consult.²

An initial difficulty in presenting the story is that the early history of the people of Southern Africa is not chronicled indigenously.³ However, ethnologists and historians have used linguistic and other evidence to piece together a fairly accurate picture. On the basis of such evidence, it appears that "Bushmen" and "Hottentots"—two early groups of indigenous people indentified by researchers—were not always distinct in terms of physical types, language, and economy. Elphick points out that physical anthropologists debate about how to separate the two groups. He also shows that the two economies overlapped. Anthony Lemon adds:

Equally mistaken is the assumption that Hottentots, Bushmen, Bantu and Europeans each occupied, at least in the seventeenth and eighteenth centuries, a specific area, where they remained isolated from the others. Such territorial separation was equally uncharacteristic of physical, cultural and linguistic groups. The assumption that it once existed appears to reflect present-day preoccupations with race and the existing social structure rather than historical reality.⁴

The early hunters and gatherers, who had no collective name for themselves, suffered from two major epidemics of smallpox in the seventeenth century. Incoming Europeans and East Indian slaves absorbed the survivors through miscegenation. Today, racially mixed descendants are classified among the "coloured" population by the government.

The two major linguistic groups among Africans—Nguni and Sotho—and the two minor ones—Venda and Tsonga—seem to have migrated to present-day South Africa a long time ago. Wilson has presented detailed evidence disproving the earlier theory of a recent migration of the Nguni and other African groups from Central to Southern Africa.⁵

Thus, by the time Jan Van Riebeck arrived in 1652, there were groups

of indigenous people in Southern Africa, with distinct but overlapping cultures. At first, Riebeck's presence was not a colonizing move—his company merely wanted a supply of water, vegetables, fruit, and wine for crews en route to the Dutch East Indies. However, company employees established a virtual colony, spreading into the interior. In addition to the existing Africans (called "Hottentots" and "Bushmen" by the settlers), slaves were imported from Malaya and other Southeast Asian countries. Further interbreeding took place, so that by the end of the eighteenth century there already existed a multiracial society—where, needless to say, not everybody was equal.

The white settlers, be they Dutch, German, or French Huguenots (two hundred of whom emigrated to South Africa between 1688 and 1700), tended to gravitate toward uniformity. By 1866, the Cape colony contained 76,865 people, of whom 26,568 were whites, 29,861 slaves, and 20,436 "Hottentots."⁶

The importation of slaves is an important factor in the shaping of the "white South African economy." The availability of skilled slaves prevented the Dutch from seeking urban trades. As a result, the tradition of Afrikaner as landlord became entrenched. The further inland they spread, the more isolated from urban influences did these farm owners become.

The British occupied the Cape for more than 100 years from 1806. With the arrival of more British settlers in 1820, there developed a further cleavage between the earlier settlers (known later as Boers) and the new white arrivals, though the new regime allowed the use of the Dutch language and Roman Dutch law. Other than some conflicts in the economic domain, the major institutional change was the abolition of slavery in 1834.

However, it was not long before a serious schism developed between the early settlers—whom we shall call Afrikaners—and the politically dominant British colonists. In the wake of the emancipation of slaves, many Afrikaner families moved to the interior, in an exodus known as the Great Trek. The Voortrekkers, as these Afrikaners were called, eventually came in contact with the African tribes living farther inland. Contact soon turned into violent conflict, and the Africans were gradually driven into the so-called "reserves."

The consequences of the Great Trek are fundamental to an understanding of present-day South Africa. First, it led to the culmination of the evolution of the Afrikaners into a cohesive group, a closely knit people who came to value tenacity, endurance, and self-respect—and also land. In isolation and in conflict with the natives, the Voortrekkers showed a narrow-mindedness and contempt for people they regarded as inferior that foreshadowed the present system. Second, conflicts became widespread as the frontier between the Afrikaners and the Africans widened to a horseshoe-shaped curve, which stretched for more than 1,600 kilometers. This expansion proved important for subsequent developments. The Afrikaners successfully pushed the African

tribes from the high veld to the arid western or malarial northern peripheries. The political and military successes of the colonizers led to the occupation of the "richest parcel of real estate in the world,"⁷ which to this day forms the economic, demographic, and political center of South Africa.

The Voortrekkers founded two independent republics: the Orange Free State and Transvaal. From the beginning, their constitutions adopted a discriminatory stance toward the natives.

The Afrikaners had moved into Natal as well, but in 1843 this area came under British control. The British, in their turn, imported large numbers of Indians to South Africa, mainly to work on sugar plantations. Indian immigration continued from 1859 to 1911; the Indian traders who followed the workers completed the human topography of early twentieth-century South Africa.

In 1910, a little over a decade after the end of the Boer War, the Union of South Africa was formed. Although the British intentions in transferring power appeared at the time to be somewhat liberal, later events were soon to lead toward the present configurations. As a South African economist describes it,

the Afrikaaners' fight against "British imperialism" continued and was inspired by the generation and maintenance of an atmosphere of dogged resistance against forces which were held to be threatening "die Boerenasie" (the Boer nation). The Nationalist Party achieved power and have sought to maintain themselves permanently in power by indoctrination through education, by exploitation of nationalist emotions and by the maintenance of a continuous atmosphere of emergency and struggle against the "external enemies."⁸

It is during this period that segregation, combining a system of reservations (later named Bantustans, and then homelands) with economic, social, political, and residential discrimination, gradually coalesced into the politicoeconomic system of apartheid.

The Commitment to and the Struggle Against Apartheid

Various explanations have been offered in the scholarly literature for the emergence of apartheid. Earlier explanations—such as the peculiar Calvinist fervor of the Afrikaners—have by now been discredited. Most recent explanations are based on underlying economic causes, or political dynamics, or a combination of both.

I argue for a multicausal explanation of the apartheid system, which gives due emphasis to the economic, political, and also cultural factors, broadly defined. Unquestionably, economic interest played a major role in forming the union, for example, between the Afrikaners in agriculture and the mining capitalists, as well as garnering white mine workers' support for policies such as the job color bar. As we shall see, economic interests do

undoubtedly explain much of the support for features of apartheid at various stages of the development of these policies in the twentieth century. However, the coming to power of the nationalist government in 1948 brought into sharp focus the political interest and ideological commitments of the right-wing Afrikaners. My intention here is not to classify all Afrikaner politicians as a monolithic group; sophisticated analysts of the political development of South Africa have observed the phenomenon of "lost Afrikaner leaders" such as Jan Smuts. Yet, there was in 1948 a consensus leading to a coherent monopoly by a racial-ethnic oligarchy composed of mainly Afrikaner white elites. Although it is true that the Afrikaner consensus was not very stable to begin with and has broken down recently, leading to both reformist and ultraright-wing tendencies,⁹ and although by the end of the 1980s much of the economic rationale for apartheid has eroded, the ideological commitment to apartheid of a group of minority whites continues unabated.

The political dominance of Afrikaners and their reasons for enforcing the apartheid laws are crucial to understanding the institutionalization of apartheid. However, by themselves they are inadequate because they appear to be arbitrary and even irrational from the economic point of view. To resolve this paradox, I propose that an analysis of the underlying economic forces can show the rationality of apartheid during much of the historical period when it developed.¹⁰

My major hypothesis here is that a necessary condition for apartheid was the contradiction between the need for continuous accumulation in a developing economy and the existence of the free labor market, given the structure of the South African population. Despite the political and ideological reasons for the rise of apartheid in the specific context of the South African society, without this fundamental contradiction other, and more competitive, types of racist economies would have been possible. But before developing this thesis, let me briefly deal with some of the important existing works on the apartheid economy.

There are two broad strands of the "economistic" explanation of apartheid. The first strand may be called the liberal school; it is represented by writers such as G. V. Doxey, D. Hobart Houghton, R. Horowitz, and W. H. Hutt—to mention a few of the scholars in this tradition.¹¹ Although there are differences regarding the explanation of specific instances of apartheid among the various authors cited, they agree fundamentally that the apartheid system is a product of state intervention. Furthermore, that intervention really has been in favor of white wage earners (or a particular subgroup among them) against free competition in the labor market. The causal role, ironically, is not played by economic forces in the final analysis. The prejudices stemming from the ideology and psychology of the white workers have been successfully transformed into apartheid through state policies.

Thus, even though the policies of apartheid undercut economic efficiency,¹² and are thus suboptimal, somehow the state has been willing to enact these against the interest of both capital and labor, broadly defined.

It is not out of place to mention some more recent liberal contributions by scholars in North America, such as Kaempfer, Lowenberg, and Hazlett.¹³ Within the framework of the public choice approach that is used by these authors, different interest groups are distinguished from one another. The state is dominated by a group that seeks to maximize the probability of its staying in power. A consequence of this is the imposition of an "apartheid tax," which raises firms' cost of hiring black labor. Thus, the rationale for apartheid is political, not economic. The achievement of maximum political efficiency leads to a reduced economic efficiency.¹⁴

The second school that upholds the economy as a causal factor is the Marxist school. Work by Wolpe, Legassick, Johnstone, Curtiss, Davies, and others can be cited to illustrate the view taken by the Marxists. Again, there are differences among different authors, but, with some exceptions, they all attempt to offer both a critique of the liberal position and an alternative explanation of apartheid. Some Marxists, such as Davies, claim that "the liberal interpretation of South African history has been identified as a form of bourgeois ideology."¹⁵ He is careful to add:

This is not to say that all writers within the liberal problematic were necessarily mere apologists for the existing practices of particular bourgeois interests. . . . Rather it is to say that the objective role of the liberal analyses has been, quite independent of the conscious intention of any individual writers, to conceal or obscure the fundamental relations of capitalist exploitation in the social formation and the fundamental contradictions (between capital and black workers) arising therefrom.¹⁶

The problem with the ideological critique is that it rests on certain assertions that are themselves in need of further justification. What does it mean, for example, "objectively" to serve to "obscure or conceal" the "fundamental" relations of "capitalist exploitation"? All these terms need further elaboration, and some are quite problematic in the ordinary sense. To use such terms without further clarification does not really advance the critique very far.

The more fruitful critiques of the liberal explanation begin by identifying genuine difficulties in the liberal paradigm. Chief among these is the problem of why apartheid has lasted so long if it is economically so irrational. A particularly illuminating aspect of the best Marxist analysis is that it draws attention to the fact that racism and ideology, instead of being explanans, are themselves explananda. That is to say, they themselves need to be explained as features that arise out of the historical conditions in South Africa.

A complete discussion of the development of apartheid in the twentieth century is beyond the scope of this book. (The reader will find Merle Lipton's thoughtful and synthetic analysis particularly useful.¹⁷) I concentrate here on several developments both of moves toward apartheid and of the struggle against it in this century, in order to illustrate how economics, politics, and ideology operate together in the context of apartheid in South Africa. The rationale for apartheid can be found in each of these spheres. It is not surprising, therefore, that the struggle against apartheid must also have economic, political, and ideological dimensions.

In the economic sphere, the rationale for apartheid, as suggested earlier, can be found in the usefulness of an unfree labor market for capital accumulation in South Africa. I demonstrate this for the mining industry, which formed a large part of the capitalist sector of the economy historically, and offer some evidence to show that this was in all likelihood true for the other emerging capitalist sectors as well.

Any observer looking at the South African economy historically is struck by the feature that capitalism was already in full bloom by the beginning of this century. In large part, foreign investment was responsible for this development. Starting with the mining industry, the direct and indirect effects of foreign investments led, by the first quarter of this century, to widespread capitalist activities in both agriculture and industry—though the extractive industries continued to be the backbone of the South African economy. Politically, the South African government, headed by Afrikaners, did not object to foreign capital, in spite of occasional nationalist protestations. Transformation of agriculture was influenced politically by the domestic struggle between Boer landlords and Africans ("squatter" peasants).¹⁸ The major groups in South African politics at this time were hegemonic mining capital (mostly foreign owned), small industrialist capital, and agricultural capital. There developed also a powerful white working-class bloc in the mining industry. It can be argued that during the formation of this capitalist economy African and white workers became differentiated through a process that is very different from the homogenization one would expect to follow from the prediction of neoclassical economic theory. Not only were there differences in skills, with whites having access to the higher-skilled jobs, but there were also differences between blacks and whites within the same category of skill.

For example, according to the available data from various reports for the mining industry between 1902 and 1908, about 5 shillings per day was the average actual wage paid to single unskilled whites. Adjusting for an allowance for family subsistence led to varying estimates between 10 and 16 shillings per day. The average African wage, estimated by taking cash and in-kind payments, amounted to between 2 shillings and 2 shillings and 8 pence only.¹⁹ This was well below the 6 to 8 shillings per day minimum level to