

## Postscript for South Africans

### **APARTHEID IN CAMOUFLAGE**

South African blacks, Indians, and coloreds do not need anyone to define apartheid. They have suffered its insults and restrictions since the beginning of the twentieth century. As official apartheid declines and is ultimately eliminated, the victims of this state policy must be alert to the emergence of apartheid in camouflage. To this end, it might be useful to examine restrictions as a general phenomena.

Apartheid is a special case of the kind of restrictions that are achieved when one class of individuals acquires privilege through the use of state violence to deny another class of individuals the right to engage in voluntary and mutually agreeable exchanges. This can be accomplished in many ways. People can use the power of the state to impose statutory restraints on voluntary exchange—through laws, regulations, or ordinances prohibiting exchanges unsanctioned by the state. These might take the form of occupational or business licensing, where individuals have to be sanctioned by a state-approved body in order to carry on a trade. Another method is for one class of individuals to use the power of the state to set numerical limits on the number of practitioners in a particular trade. Yet another method of using state power is to set the money terms of exchange—that is, minimum or maximum prices.

These and other restrictions all have predictable discriminatory effects on classes of individuals who may be described as low skilled, low educated, latecomers, and politically impotent. Exchange restrictions discriminate against people who may be generally classified as less preferred in the eyes of buyers and sellers and these restrictions create monopoly power and monopoly income for individuals seen as more preferred.

Calls for exchange restrictions are frequently concealed by motives that seem quite noble. The most familiar of these motives include providing for the public health and safety, preventing unfair competition, setting up orderly markets,

protecting jobs, preventing exploitation, and equalizing bargaining power. To accomplish these objectives, the proponents call for restrictions on exchange.

The essence of all the apartheid rules and regulations is restriction in one form or another. In South Africa's labor market, the basic motivation behind the various provisions of the Industrial Conciliation Act was the use of state power by one class of individuals to restrict entry—and hence, the labor supply and competition—by another class of people. As we have discussed throughout this book, similar restrictions were sought and attained through the Land Act, the Group Areas Act, the Mines and Works Act, the Trade and Customs Act, and many other South African laws. Apartheid meant that the restrictive criterion was race, but—again—this is in fact a special case of a much larger phenomenon where one class of people uses state power to promote their ends at the expense of others.

Let us briefly consider this larger phenomenon—which, for comparative purposes, can be called *apartheid in camouflage*—and speculate on the various forms in which it may appear.

## MIGRATION RESTRICTIONS

Since 1979, the Industrial Conciliation Act has been amended to permit the recognition of black labor unions. The recognition of black labor unions in South Africa had long been denied, and indeed this was an important government concession to a long-standing legitimate complaint.

The job of any labor union is to seek better working conditions and higher pay for its members. Better working conditions and higher pay always translate into higher labor costs for the employer. The higher labor costs occur independent of whether or not people agree about the merit of higher wages and better working conditions; however, there are certain predictable employer responses to changes in the price of any input. In an effort to maintain profits while at the same time lowering costs, employers will seek substitutes for an input whose price has risen. In the case of higher prices for labor, firms typically substitute capital for labor. That is, they increase the use of machinery relative to labor.

When this happens, the output per worker rises, and so does the pay of the worker using the capital. Along with higher wages comes an increased attractiveness of that employment to other workers earning lower wages elsewhere. If all potential workers were granted unrestricted access to the higher paying employment, then supply and demand considerations would make the higher wages of the incumbent workers unsustainable. Therefore, it is in the pecuniary interest of incumbent workers—who may be unionized—to erect entry barriers.

One way to accomplish this is through migration restrictions or some other means of reducing the supply of foreign workers. Seeking and using state power to limit foreign workers does not require any kind of antipathy for foreigners as such. Quite simply, national origin—like race—is a convenient attribute on which

to discriminate. It is likely that this kind of discrimination is becoming especially tempting to the mineworker unions in South Africa.

In 1984, some 350,000 blacks from the neighboring countries of Mozambique, Malawi, Swaziland, Botswana, Lesotho, and Zimbabwe were legally employed on contract by South Africa's mining industry. The government estimates that another 1.2 million blacks from other countries are living and working illegally in South Africa.<sup>1</sup>

As mine wages increase, there is greater incentive for South Africa's mining houses to substitute capital for labor. In turn—as employment continues to fall—there will be increasing pressures on the unions to ration jobs. The large non-citizen work force will probably be a tempting target. In other words, South Africa's unions—both black and white—may find themselves calling on the government to restrict immigration or reserve mine jobs (at least, the highest paid ones) for South Africans only.

Reserving jobs, on the basis of the citizenship of the worker differs little from job reservation on the basis of the race of the worker. Its results differ little, as well: One class of people will monetarily gain at the expense of another class of people. Apartheid in camouflage differs from traditional apartheid only in the selected discrimination criterion.

## LICENSING AND REGULATION

Another potential apartheid camouflage is in the form of occupational and business regulation. The most frequently stated justification of government regulation—in every country—is to protect public safety and morals, provide for orderly markets, eliminate unscrupulous practitioners, and provide for a fair rate of return. For our purpose here in studying the actual effects of regulation, however, we need not evaluate—or even acknowledge—its proponents' stated justifications or intentions.

The economic effects of licensing and regulation are quite predictable. The most immediate effect is that the number of practitioners are smaller than without licensing and regulation. There are fewer practitioners because entry costs are made higher through such requirements as minimum education, apprenticeships, and installation of costly health and safety equipment, or the requirement to purchase a costly license. In some cases, the number of practitioners are fewer because the regulatory agency sets a numerical limit.<sup>2</sup> Most often, the conditions for entry are decided by agencies composed of, dominated by, or influenced by incumbents in the trade. Their incentive is to prevent the number of practitioners from getting so large that the income of the incumbent becomes threatened by newcomers who may charge lower prices or offer better services.

This behavior is already evident in some South African cities. For years, blacks were not permitted to enter the taxi industry in the metropolitan Johannesburg area. Black taxi owners—who have only recently been permitted to

operate—are now opposing further deregulation, which would allow entry by other black taxi owners.

*Business Day* (March 27, 1987) reports,

Black taxi drivers, through their association (SABTA) [South African Black Taxi Association], are angry about proposals in the Transport White Paper to deregulate the taxi business. Their complaint is that deregulation will not bring “pirates” [illegal operators, called “gypsies” in the United States] into the fold “but will destroy them” [members of the SABTA] and it will “resuscitate the power of the white bus industry” which will remain regulated.

*Business Day* concludes that the members of SABTA “now want to establish a cozy little cartel” which is “not in the interest of their passengers.”

Further deregulation of the taxi business would allow more entry. In turn, more entry would tend to moderate taxi price increases, provide greater customer options, and offer greater business opportunities for would-be taxi owner/operators. The South African Black Taxi Association sees further deregulation as a possible threat to the income of its members. Especially ironic is that before blacks were permitted to enter the business, white taxi owner/operators were against their entry for identical reasons, and used the state’s apartheid tools to keep blacks out.

## LEGISLATED WAGES

Government-regulated wages based on race offends the moral sensibilities in us all. The regulation of wages and other conditions of the workplace was one of the most important building blocks in the perfection of apartheid. An interesting pattern often emerged in the practice of this type of regulation. In some cases, apartheid supporters called for mandatory *increases* in wages paid to nonwhites; and in other cases, they were satisfied with the mere *restriction* of black employment (see Chapter 4 for details). Where black employment could be excluded in the form of outright bans or strict black/white employment ratios or by the fact that blacks did not have the requisite skills, white workers faced little wage competition from blacks. In that case, there would be very little threat to white employment from the large racial wage differential. However, in cases where it was more difficult to restrict the employment of blacks, the large wage differences for the same productivity posed a competitive threat to white employment. In those cases, apartheid supporters relied more on wage legislation as a means to preserve white privilege.

Apartheid wage legislation was based on evil intentions, but we should not be blind to the fact that the effects of wage legislation are independent of its proponents’ intentions. Had apartheid supporters said—as they sometimes did—that they were supporting wage legislation to help prevent the exploitation of blacks, the legislation would have nonetheless had the effect of pricing blacks out of the market and lowering the cost of racial discrimination.

As South Africa emerges from under the yoke of apartheid, we should keep reminding ourselves that the effects of legislation are not necessarily determined by legislative intent. Consider the state president office's announcement that disparities in pay differences will be abolished in public service employment on March 1, 1988. Both the White Public Servant's Association and the Coloured (mixed race) Public Servant's League welcomed the announcement, which will affect about 600,000 employees.<sup>3</sup> It is estimated that implementation of the elimination of racial wage disparities will cost the government R135 (\$65) million a year in added wage costs.

No doubt, eliminating the scheduled racial wage differentials is a worthy goal as part and parcel of eliminating apartheid. However, we should be wary because some ways of calling for equal wages can produce effects similar to apartheid. Most likely, the elimination of wage differentials will take the form of *raising* the wages of nonwhites to the same level as whites. The effect of this will be to increase the cost of hiring nonwhites. Raising the cost of hiring nonwhites will have the predictable effect of making managers more selective in hiring nonwhites than previously. One selective mechanism would be to require greater job qualifications or credentials—which, contrary to the spirit of the mandate to equalize wages, would tend to discriminate against the employment of workers who are low skilled. To the extent that blacks share this characteristic to a greater extent, they will suffer the greater burden of skills and credentials discrimination.

By contrast, if the call to equalize wages took the form of *lowering* white wages to the level now received by nonwhite public employees, the effects would be opposite and symmetrical to equalizing the wages upward. Not wanting to earn "black wages"—or perhaps having higher paying alternatives elsewhere—some whites would probably quit public service employment. Equalizing the wages downward would tend to increase the employment opportunities for low-skilled workers, among whom blacks are disproportionately represented.

There is nothing that an economist qua economist can advise as the best way to eliminate racial wage differentials. However, understanding the effects (costs) of alternative means of doing so can assist policymakers in developing the appropriate trade-offs.

## CONCLUSION

Given a bit of careful analysis, one might imagine many other camouflages that apartheid could assume. All would take the form of government regulation of some aspect of the business and labor markets—regulating entry conditions and/or setting the terms of trade. While—after the demise of apartheid—the criteria for exclusion will be in terms of nonracial attributes, there could very well be exclusion, nonetheless, based on some other personal attribute; and no one should be surprised to find an implicit reinforcement of the previously explicit racial regulations.

South Africa's history should amply demonstrate that her people's general interests are best served by a greater dispersion of political power to local levels of government, freer markets, and a reduction in the government regulation of economic activity.

The whole ugly history of apartheid has been an attack on free markets and the rights of individuals, and a glorification of centralized government power. In 1900 when South African Prime Minister Jan Christiaan Smuts said, "It is ordained that we [Afrikaners], insignificant as we are, should be amongst the first people to begin the struggle against the new world tyranny of capitalism," he was recognizing that free markets along with their inherent dispersion of power have little respect for race. Therefore, South Africa declared war on capitalism. Now—in order to promote tranquility, dignity for the individual, and prosperity for all—South Africa's people must strengthen its beleaguered market forces, and declare war against centralized government power.

## NOTES

1. South African Department of Public Affairs, *Official Yearbook of South Africa 1986* (Pretoria: Government Printer, 1986), p. 214.
2. See Walter E. Williams, *The State against Blacks* (New York: McGraw-Hill, 1982), chs. 5 and 6. Also see Simon Rottenberg, "Economics of Occupational Licensing," in *Aspects of Labor Economics: A Report of the National Bureau of Economic Research* (Princeton, N.J.: Princeton University Press, 1962), pp. 3–20.
3. "Parliament," *South African Digest* (September 18, 1987): 5.