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RESPONSE TO INTERNATIONAL PRESSURE:

REALISTIC OPTIONS FOR THE FUTURE

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This brief report is based on a talk by Dr RW Bethlehem delivered at a Corporate Members' Seminar on 26 November 1986. It is felt that his views deserve wider dissemination.

The history of South Africa is a long chronicle of outside intervention and what we are witnessing today has had its precursors since before missionaries campaigned for the freeing of slaves and against the maltreatment of Hottentots. It must, however, be clear that it is neither possible to talk about international pressure without dealing with domestic issues, nor possible to talk, in present circumstances, about economics without also getting involved in politics. I have assumed that it is because I am an economist that I have been invited to participate on this panel and I intend, therefore, to give an economist's view. But it will inevitably be a view which deals with the complex connection between international pressure and the domestic South African situation and the no less complex connection between economics and politics. Taking the title of this seminar as my guide I will attempt to be as realistic as possible when dealing respectively with 'Options for Government' and 'Options for the Corporate Sector'.

Options for Government

Being realistic, from the Government's point of view, requires consideration of two very different things. It requires consideration of first, the economic implications of sanctions and, secondly, the likely response, to any action one might think of taking, of one's domestic constituency.

Time does not permit me devoting the attention I would like to the detailed implications of economic sanctions, therefore it will have to suffice that I will deal with these only generally. The research I have conducted is revealing and serves as a useful point of reference. It has been based on two critical assumptions. First, that although the sanctions we presently face are of low-intensity, they are likely to escalate for a number of reasons, domestic as well as external, and so will exercise an increasingly negative influence on the economy. Secondly, it has been assumed (contrary to the hopes of township revolutionaries and to the beliefs of many people abroad), that the citadel of Afrikaner power in South Africa

is not in fact teetering on the brink of a cliff, waiting for someone to push it into the abyss of disaster. The assumption, on the contrary, is that the citadel is secure, that the powers of repression are formidable and that, as far as sanctions are concerned, the Government has prepared well in advance - it hasn't been asleep on the matter.

What follows from such assumptions when one considers the processes of demography and underlying economic forces? I can mention only my conclusions but these are significant enough. One of them is that by the end of the century there would be an increase in unemployment of around two million people, over and above what would have happened had sanctions not been imposed. As far as black shares in the income of the non-agricultural sectors of the economy are concerned, an interesting picture emerges. At present, blacks comprise about 72% of the total South African population (including the 'TBVC' territories), rising to over 76% by the year 2000, whether we have sanctions or not. On the other hand, the black share of non-agricultural income is now in the order of 28%. If the economy were to grow in a normal manner without sanctions between now and the end of the century, that share would increase to around 36%. However, with sanctions of the kind I have specified, there is every likelihood that the growth of employment would be checked altogether. Such a check to the economy's job-creating capacity would reduce the black share of non-agricultural income to about 20%.

If these figures sound outlandish, just remember that in the last five years real GDP growth in South Africa has averaged only 1% per annum, while the total population has been increasing by 2,5% per annum, with the black proportion increasing by over 3% per annum.

The contrast, therefore, between the 36% possible share of blacks in non-agricultural income and the 20% probable share, is stark and sanctions amount to nothing less than a terrible rip-off of the black community.

One could expound on the statistics here indefinitely but I must also comment on what the figures mean for the country's socio-political stability. In that context, the prospect is horrific - something from which we all must withdraw, the Government in particular. The Government, when faced with this kind of prospect, must surely be aware of what it means for stability and should be moved, one would have thought, to take all appropriate action to head off the disaster. The prospect of sanctions is very real. We are not talking about a theoretical situation. The document I have here, the Comprehensive Anti-Apartheid Act of 1986 (vide Southern Africa Record no. 45) of the US Congress, makes it very clear what the Reagan Administration is going to have to do. For example, it says that it is the will of Congress that the President of the United States should raise the matter of mandatory sanctions in the UN Security Council in terms of Article 41 of the Charter, with a view to the UN adopting such sanctions in the future. The wording of the Act is not binding on the President in this case, but just imagine what would happen if a non-permanent Security Council member introduced a resolution calling for the imposition of sanctions in 1987 that were below the threshold of the sanctions the US itself has already passed into law. Could the Reagan Administration then veto? It might be very difficult for them and then the responsibility, from South Africa's point of view, of vetoing, would pass to Britain, for France, presumably, would not be reliable. Even Mrs Thatcher's government, in such circumstances, would probably find it very difficult to stand alone. And so statutory sanctions is a prospect I think we should brace ourselves for. Nor should we underestimate such sanctions were they to be of a 'lowest common denominator' kind. Once in place, they would represent a basis for escalation in the future.

So from the point of view of the economy, the sanctions prospect is not a happy one. What I have spelled out, the Government must itself know, even though it may not be talking about it too loudly at present, in concentrating most of its attention on meeting the sanctions challenge.

As far as the Government's concern about its domestic constituency is concerned, serious problems can be identified. The present National Party came to power in 1948 as the most authentic voice speaking on behalf of Afrikaner interests. That has changed to a considerable degree and today it speaks more ambiguously. Internal contradictions and inconsistencies make the Government talk very often about the protection of 'white' interests when really, at the bottom line, it is Afrikaner interests it is most concerned about. The rejection of the EPG initiative has its explanation, I believe, very largely in that. When the Government talks about group survival, its arguments really only make sense when it is Afrikaner survival that is at issue. We have serious problems, therefore, of a lack of clarity of true objectives and motivations in the very quarter from which should come a 'national' lead.

It is obviously very important when considering such a situation that there should be an evaluation and balancing of prospective costs and benefits, by Government, before deciding how to act. Put simply, it has to weigh the costs and benefits of sanctions against the costs and benefits of bowing to outside pressure.

Let us consider then the costs of sanctions and the costs of compliance first. They can be listed as follows:

Costs of Sanctions

- 1) reduced scope for exports.
- 2) aggravated capital flight.
- 3) increased foreign company withdrawal.
- 4) increased brain drain.
- 5) increased unemployment (mainly in the long-run).
- 6) the danger of increased social unrest.
- 7) greatly increased cost of security and defence.
- 8) increased strategic stockpiling.
- 9) aggravated 'lager' psychosis.

Costs of Bowing to Outside Pressure

- 1) risk of aggravating internal unrest as anti-apartheid groups are encouraged.
- 2) risk of loss of right wing support.

It is not, however, only costs that need to be considered. The benefits would balance costs almost directly. For example, meeting some outside demand could help reverse the withdrawal of foreign capital and reduce the threat to exports. But defiance has its benefits too in the form of boosted white support for the Government and the creation of a climate which makes it easier for the Government to pursue policies of heavy repression against dissidents.

Given this balancing of possible costs and benefits, it seems to me that there are two approaches open to the Government. It can either assume that nothing can be done about sanctions or it can assume they can be modified, depending on Government's own initiatives. Government action may either be meaningful to having sanctions removed altogether or it may help to minimise their effect and/or escalation in the future. We need to consider the different options which present themselves under these opposing scenarios.

If we assume that nothing at all can be done about sanctions, two options present themselves to the Government. The first option is to regard sanctions as a declaration of economic war against South Africa, in which case it becomes necessary to mobilise the country on a war footing.

This would mean:

- a) suspending the market economy and replacing it with a system of direct controls wherever that was considered to be administratively expedient;
- b) restricting the availability of information, especially with regard to exports; and
- c) going for maximum economic growth, with the objective of countering social turbulence and matching the increase in population (resorting to deficit financing and accommodating monetary policy).

But there are costs in doing this. Briefly, they would involve a severe curtailment of both economic and other freedoms, a big sacrifice of economic efficiency, a serious aggravation of inflation, the likelihood of further currency collapse and an increase in balance of payments complications.

My view is that the chances of such a policy actually succeeding are moderate to poor, although it may appeal to many in government today and even to some in the private sector.

The second option open to the Government, if it assumes that nothing can be done about sanctions, is for it to regard sanctions in their present form as serious, but not critical, and to leave sanctions-busting mainly to the private sector, giving that sector the greatest possible support. This would require:

- a) retaining the market-oriented economic policies which we presently claim;
- b) retaining the free flow of information and restricting the publication only of the most sensitive material; and
- c) giving the economy the most powerful supply-side encouragement by:
  - i) deregulation, particularly in order to encourage the informal sector because on it much of our hope is going to have to depend in providing jobs for the unemployed
  - ii) privatisation of existing public sector enterprises because, by doing so, efficiency will be promoted
  - iii) reform of the tax systemand
- iv) pursuing accommodative monetary policies while at the same time keeping fiscal discipline, particularly to minimise inflation risks.

In my opinion, the costs of such a policy would be minimal in present circumstances and its prospects of success would be reasonably good. This is the policy - we are talking about sanctions remember - that is publicly favoured by the Government at the moment and it is also the policy advocated by Dr Gerhard de Kock of the Reserve Bank, and by the business sector.

So much for assuming that nothing can be done about sanctions. The alternative scenario is to assume that, by its actions, the Government can influence sanctions, either to have them withdrawn or to have them modified and their future escalation softened. It is here that a continuation of reform becomes important.

As before, there are two options. The first is to proceed with reform but only at such a pace and to the extent your constituency will allow. In short:

- a) defer all major issues until after the general election; and
- b) avoid any step that could be construed as leading to a handing over of power.

The cost of such a policy would be further loss of Western government support in the short-run, increased mistrust and disappointment amongst blacks and moderate whites at home, again in the short-run, and a compounding of external and internal deterioration in the long-run.

My view is that such a policy (which incidentally is official policy at present), would have only a moderate to poor chance of success.

In assuming that something can be done about sanctions, constructive use can be made of the US Comprehensive Anti-Apartheid Act, for it provides a guideline for seizing the diplomatic initiative, even though compliance with Section 311 may be impossible. The objective of this would be twofold: first, to promote an improvement in the internal and external political climate, and secondly, to demonstrate that commitment to constitutional and other reform is unshaken. The danger lies in accusations of acting from cowardice (by the right) or from expediency (by the left). Both accusations could, however, be refuted because there would be little chance of sanctions being removed in the short-term. Although the policy would certainly involve a further erosion of orthodox Nationalist constituency support, it would have a moderately good chance of achieving its objectives. However, this policy is rejected at present.

Now it seems to me, as an economist, that there is a measure of the schizophrenic in the Government's present response to the sanctions situation. Economically, if we take the EAC report and the Government's own reactions to it, presented to the November 7 meeting with the business community, the Government is attempting to respond rationally. Its analysis is balanced and logical, and its arguments reasonable and generally sensible. Diplomatically, and this is why I use the word 'schizophrenic', the Government is responding differently. Its reactions are emotive or dominated by emotive forces in its constituency, instead of being rational. Obviously, it is influenced by what is happening on its right wing, but that does not change matters.

There is another problem to which it is necessary to draw attention. Over the last two years the Government has lost the diplomatic initiative. Since the Nkomati Accord, the process has been one of almost unbroken deterioration. Purely objectively, we are forced to observe that the Government's policy has been to react or respond rather than to initiate in the changed diplomatic situation. It is very important for the Government that that this should be changed and that is why I have suggested that something can be salvaged, strange as it may seem, from the US Anti-Apartheid Act. One can only hope that this will be recognised.

#### Options for the Corporate Sector

The challenge facing the corporate sector is no less daunting than that facing the Government, although it is very different. The corporate sector's commitment is to a market economy which it believes, and with good reason, is the system that will be most promotive of economic growth, and such growth is essential given the growth of population we can expect in the coming decade and a half. But blacks have reason to mistrust the market economy. Excluded from the main benefits it generates and participating in the economy mainly as consumers and workers, they see the market system as biased against them and as exploitative. They see no difference between the market economy and capitalism, and they see strong links between capitalism and apartheid. Exclusion from the main fruits of the market economy has inevitably predisposed blacks to ideologies which are hostile to its perpetuation in the future. This is a serious matter, particularly as there is little prospect of black attitudes being changed in the foreseeable future.

What can the corporate sector do about this if it wants the market economy to survive in a post-apartheid society?

There are two things it can do, in my opinion, both of which would demand of it sacrifice, patience and perseverance, and they are interrelated.

First, the corporate sector has to acknowledge that the black predisposition for a socialist future makes sense from a black point of view and that there may be validity in much of socialist criticism of the existing order. In other words, black attitudes should not be rejected out of hand as dangerous and subversive. There is an

side to capitalism which even the corporate sector may be prepared to acknowledge and work towards changing.

The second thing the corporate sector can do is to recognise that black attitudes towards the market economy will only change in a significant way when black participation in the entrepreneurial sector becomes substantial. At present the black participation in the business sector is minimal and a breakthrough in this regard is needed urgently.

One is dismayed by the kind of thinking that is taking place on the matter. Much is said and written about the need to encourage the informal sector, to encourage the establishment of black businesses and to encourage share participation schemes. But even if these approaches were to be pursued vigorously, which they are not, their impact would be small. The great mass of blacks would remain workers (in the narrower sense) and consumers and would still account for the great majority of the unemployed.

Achieving a breakthrough is going to require something very much more imaginative.- something even more imaginative than the breakthrough achieved in the mid-1960s by Anglo American, when it transferred control of General Mining to the Sanlam and the Federale Group. That was an act of great political foresight and wisdom and it succeeded in totally changing the situation in the mining sector, which until then, had been dominated by a confrontation of English capital and Afrikaner labour, with an Afrikaner Government sitting on the sidelines, finding it very difficult to be objective in matters of dispute. What is needed now is a similar breakthrough with blacks, but how can it be done given the fact that no black institutions exist comparable to Sanlam and Federale.

There are examples of black corporate power of comparable authority and so a way forward can be found. Those examples of black corporate power are the black trade unions. This brings me back to my first point about not rejecting black attitudes even if they are socialist. There is no reason why black trade unions need to remain exclusively concerned with negotiating wage rates and conditions of employment. There are examples in other countries where the unions themselves have taken entrepreneurial initiatives, and successfully. The best case is that of the Histadruth in Israel, the country's great labour federation. It is today the owner of some of Israel's largest and most important enterprises. Being socialist does not mean you have to leave everything entrepreneurial to capitalists. In Britain, labour has supported the establishment of major consumer cooperatives. And so it could be in South Africa also.

It is in the corporate sector's interest to encourage such developments; to act with the kind of foresight and wisdom Anglo American evidenced twenty years ago. Of course, it will mean giving up market share. Of course, it will mean sacrifice. And it will mean also providing technical and perhaps even managerial aid to enterprises that are totally controlled at the top by blacks and black organised labour.

But the prize will be the survival of the market economy. Not capitalism but the market economy. It is a prize too great for the corporate sector to ignore. And this is being realistic! To believe that things can muddle on in South Africa as they have been allowed to muddle on, without putting the future at risk, is not only dangerously unrealistic, it is a pipe dream.

I have been deliberately provocative, but I also happen to believe that the 'active' options to which I have drawn attention represent a rational and, indeed, realistic way out of a situation which is degenerating too rapidly into a confusion of raw power conflict. The main protagonists of that conflict must themselves realise that if the battle continues along present lines, the only certain outcome will be irreparable damage to the South African economy, and it is the economy, alone, which offers us all the only real hope for the future.