

# The Political Economy of Apartheid: A Public Choice Analysis

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«The survival of apartheid is indeed the survival of a kind of socialism -often altruistically motivated- whilst the dissolution of colour injustice has been continuously assisted by competitive capitalism. The persistence of colour injustice has been a triumph, perhaps temporary, for the ideologies of 'dirigisme'». W.H. Hutt, *The Economics of the Colour Bar*.

## *Apartheid, Rent-seeking and Socialism*

It is ironic that the relationship between apartheid and South African business interests is used as propaganda by the apartheid regime and its leftist opponents. On one hand, the African National Congress (ANC) and its allies often depict apartheid as a necessary and evil derivative of capitalism. On the other hand, the National Party describes itself as the only true friend of capitalism in Africa. Both claims are false.

The exact nature of apartheid is also widely discussed by South African academics within the so-called liberal-radical debate. Within this debate (1), the radical/Marxian argument claims a mutually advantageous link between apartheid and capitalist institutions with is often summarised in the aphorism, *racial capitalism*.

Arguments equating apartheid to racially based capitalism rely upon misleading rhetoric which obscures the compatibility of the interventionist nature of apartheid with other forms of socialism. The coupling of apartheid and capitalism has been as unfortunate as it is erroneous; the implication is that the market system tainted a free and fair society. Such an implication also fails to recognise the historical development of institutions within South Africa.

The liberal riposte to the radical/Marxian position seeks to identify the logical inconsistency of apartheid with economic efficiency (2). Discrimination in the liberal view is counter-productive to the interests of all groups since potential gains from trade are reduced to *all* parties (Becker, 1971). The apparent necessity to impose active interferences on markets suggests that free and open markets would have undermined the separateness which is the aim of apartheid. Evidence of this contention is seen in the imposition of stringent laws which was just as necessary to enforce adherence of the favoured group to behavioural schemes as was necessary to undermine the position of the disadvantaged groups.

Whereas the Marxian argument has been misleading, the liberal response has provided and inadequate explanation of the role of capital in the development, continuation and demise of apartheid. The arguments below suggest that capital is merely one type of interest group which could manipulate

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a given set of political institutions (3). However, manipulation by other (rent-seeking) interest coalitions can exist within any political structure regardless of the ideological or legal disposition toward holding of private property or capital. Without an appreciation of the problem of general interest-group behaviour many of the same problems with economic growth and mal-distribution will survive the implementation of a post-apartheid system.

The aim of this paper then is to provide an alternative and consistent explanation of the nature of apartheid. Apartheid will be seen to be the outcome of a peculiar form of rent-seeking and interest group behaviour (4), whereby its mechanisms are seen to be linked to a collectivist mentality which is more consistent and compatible with socialism than with capitalism.

### ***Differentiating Characteristics of Capitalism and Socialism***

In order to examine the compatibility and coincidence of apartheid with different social frameworks, it might be helpful to provide definitions of capitalism and socialism. The approach will be to identify processes and modes of behaviour rather than precise, idealised systems.

#### ***The Market Economy, Individualism and Profit-seeking***

Although both will be used interchangeably, in order to remove some of the political and pejorative impact of the term 'capitalism', the «market economy» is preferred (Hayek, 1988: 111). For our purposes, capitalism will be defined as a system which assigns primacy to the conditions which affect the individual, especially in terms of the exercise of market choices.

The foundations of the market economy are: (a) the right of private ownership, (b) freedom of contract, and (c) limited government (Pejovich, 1983: 1). Therefore, capitalism or the market economy is consistent with any non-coercive individual *aims*. In a system based upon individualism, order is seen to be derived spontaneously. Such «spontaneous order» evolves from the subjectively determined actions of individuals, specially the market order (Hayek, 1988: 6). Other positive social consequences include greater flexibility and responsiveness to changing conditions and a subsequently larger range of goods and services.

In non-Marxian economic analysis entrepreneurial activity is essential to economic growth since it serves as a mainspring of a market economy and are themselves a product of the market. The radical/Marxian interpretation seeks to confirm the concept of «monopoly capitalism» or «state capitalism» which is then linked to apartheid. However, such a system is inimical to the functioning of entrepreneurial activities and the market (5). It should be noted that this projected stage of «capitalist» development is more likely to be a political phenomenon rather than an inherent economic tendency.

In a market economy state intervention is eschewed so that maximal freedom of choice (voluntary collaboration) is allowed. Individuals as entrepreneurs, consumers or workers are permitted to assert their subjectively chosen means towards fulfilling their subjectively chosen ends. As shall become clear, institutions define incentive structures which direct attempts and identify opportunities for individual enrichment either through profit-seeking or rent-seeking.

#### ***Socialism, Interventionism and Rent-seeking***

Although the following does not represent a complete definition, the essential foundations of most functioning socialist systems are (a) public ownership, (b) administrative planning, and (c) party membership (Pejovich, 1987: 6). Rather than allow the distribution of resources, income and wealth to be driven by choices made by individuals as individuals, under socialism a central authority is granted power to dictate a deliberate arrangement of human activity (Hayek, 1988: 7).

While capitalism is consistent with any non-coercive individual aims, socialism is consistent with nearly all collective *means*. This shift of focus from the individual to the social brings with it a tendency for interventions by the state and use of its coercive power to «improve» upon spontaneous order. Under socialism as under apartheid, pressures are applied to induce individuals to relinquish their private bargaining strategies and to accept public (imposed) solutions. In consequence of its inherent approval of intervention and limitations upon private activities, apartheid and socialism are more conducive to the socially wasteful behaviour associated with rent-seeking.

#### ***Institutional Arrangement and Determinants of Profit-seeking and Rent-seeking***

The impact of legal and political institutions upon individual choice is determined by the incentive base for economic decisions in both private and public spheres. For example, in the absence of state



intervention, it can be expected that entrepreneurial talents will be directed towards pursuit of risky market ventures to seek profits. Alternatively, an institutional bias in favour of public intervention provides the inducement for the same entrepreneurs to solicit above-market returns (rents) in the form of state-enforced monopoly grants. Such activities are known as «rent-seeking». Although rent-seeking involves expenditures of resources, assignment of state enforced monopoly rights provides a secure flow of returns which directs maximising behaviour along a path of least resistance. As indicated above, rent-seeking is more likely to be observed in states where economic decisions are centralised or collectivised, as under socialism and apartheid.

#### *Comparison of Rent-seeking and Profit-seeking*

In the neoclassical model of a competitive economy, the pursuit of rents (profits) is portrayed as a necessary and beneficial driving force. However, economists have recently come to understand that this pursuit is a double-edged sword. In the conventional mode, profits exist when payments to jointly used factors of production exceed the returns from the best (most efficient) alternative use of the resources. Profits are normally transitory as competition directs resources in response to these market impulses. Although they sometimes err, since entrepreneurs are directly responsible for their mistakes they have an incentive to behave such that profit-seeking generates positive social consequences, e.g., greater output.

Rent-seeking, as identified in original insights by Tullock (1967), describes a process by which individuals seek to escape the competitive forces of the market in order to maintain rents/profits. The most effective restraints on competition are the result of the manipulation of existing institutions or public policy. Under economist's assumptions of rationality and competition, individuals or groups will expend an amount of resources up to the limit of the value of the rights to the potential gains. The maximisation behaviour of individuals, pursued in conjunction with state-sanctioned disruptions to (mutually-advantageous, voluntary) exchange, leads to social waste rather than social surplus. Competition for protections instituted by contrived entry restrictions induces resource owners to misdirect scarce resources toward acquiring, maintaining or avoiding the costs of such transfer rights (Colander, 1984). Thus, the capacity to contrive, grant and control barriers to entry is probably the most important political and economic tool of governments which must face competitive elections (6). In summary, governments provide the means by which individual or groups both inside and outside the government pressure for legislation which protects them from competition.

#### *Industrial and Institutional Structures in South Africa*

As in most other African countries, South Africa inherited a tendency towards centralised authority from historical links to mercantilist and colonial institutions. This centralisation of authority lends itself to substantial intervention by the state into economic and social processes. The extensiveness of public intervention in markets may not be contrary to the functioning of certain variants of capitalism. For example, the form of industrial capitalism which characterises much of South Africa industry generates opportunities for pay-offs from rent-seeking. Private ownership of capital in many industries is mixed with substantial regulatory protections against competition. These regulations are more influenced by political rather than economic reasoning. From an operational standpoint the nature of ownership (private or public) is less important than are the monopoly protections. In this sense protected private firms may act little differently than state-owned firms in the Soviet Union. Based upon the analysis offered here, retributive demands for the public takeover of the so-called private monopoly structure of South African industry is misguided. Nationalisation of the firms which occupy the «commanding heights of the economy» will do little to change the nature of their production.

If the real purpose behind the complaints against South Africa's industrial giants is to transform these firms to be more responsive to consumer demands, then the state institutions and rules which protect these firms must themselves be altered; effective competition must be encouraged. State ownership cannot aim to improve competition because of its exclusive claims both on resources and sales and the fact that state monopolies are sheltered from the disciplining forces of competition.

However, entrepreneurial (free-enterprise capitalism) works best without state intervention in order for firms to carry out the discovery process which can only be guided by market transactions. The worldwide moves towards privatisation, deregulation and reform of the socialist economies implies a widespread consensus (though not articulated as such) on the need to re-direct economic decisions from rent-seeking toward profit-seeking, from centralised interferences toward decentralised market processes.

## *The Socialist Pedigree of Apartheid*

The interventionist nature of apartheid policies suggest that, contrary to the radical-Marxian appellation, it would be more appropriately identified as racial socialism. This claim is made on the basis that apartheid involves social(ist) obstruction of activities as the means of meeting radical(ist) ends. Support for this claim is based upon the contention that the institutional structure of the state lies at the core of the injustices of apartheid (Burton, et al., 1986). The implication of this rejoinder is that the nature of the state and abuse of its coercive power needs to be changed rather than to eliminate market forces and private property (Hutt, 1964). Therefore, the contradictions between apartheid and the market system (capitalism) are dysfunctional and render the two to be incompatible (Lewis, et al., 1986). On the contrary, apartheid exhibits a greater compatibility and consistency with both the means and the ends of socialism.

Apartheid in its various forms has involved numerous restrictive laws to protect whites from the social and economic competition of blacks. These laws were supported by a huge bureaucracy which was not simply a means for implementing apartheid, but it continues to serve as an end since most of the bureaucracy is made up of Afrikaans speaking whites. Bureaucratic control continues to be exercised over a large portion of the economy including armaments, transport, iron and steel production, the SASOL oil-from-coal industry, and electricity supply.

State ownership of infrastructure (railways, harbours, airways and telecommunications), extensive parastatals, and a preponderance of «control boards» exist in other mixed economies. However, in South Africa these all represent an integral part of a plan for central control of the economy and polity which is more characteristic of other authoritarian socialist governments.

### *Economic Consequences of Political Power: Apartheid and Social Interference with Individual Action*

This deduction emerges from consideration of the means for the implementation and the results of apartheid rather than the qualitative intentions of the policy. It is noteworthy that most of the economic monopolies are characteristic of interventionist socialist policies existing elsewhere which could be maintained without apartheid.

Consider the following spectrum of public policies which distinguish capitalism from socialism. At one extreme is a minimal amount of state interference/coercion within a system of voluntary exchange and private property rights. (This is consistent with most Marxian definitions of capitalism since private ownership is the principal tool for the control of the means of production). At the other extreme is a situation of maximal state intervention and planning with sharply attenuated property rights due to state ownership of the factors of production. The content and consequence of selected apartheid policies are evaluated below.

*Apartheid and Social(ist) Engineering:* State directed social engineering is an integral component of both apartheid and the socialist enterprise. An assessment of the intentions behind social engineering is unnecessary for it to be considered a part of a social(ist) project, although such intentions influence the subjective evaluation to such policies. Socialism, in general, and apartheid policies, in particular, aim to direct social development and militate against free choice by individuals which is consistent with the claims of capitalism.

*Market Intervention and Apartheid :* Another consideration concerns the extent of and predisposition towards state intervention in the process of market exchange. An essential component of capitalism is free exchange within a system of private property rights. On the contrary, apartheid involves the effective «nationalisation» of all holdings of property. For example, the Group Areas Act restricts not only sale of property but also labour and capital movements. In a very real sense the state dominates all market transactions whether based upon racial or other motives. Many of the policies discussed below exist in other socialist economies, but most have a particular role within the apartheid system.

*Apartheid and Labour Markets:* Labour as a form of property (human capital) transacted in the labour market was also «confiscated». Pass Control laws and Job Reservation legislation placed upon workers extensive restrictions upon spatial movements and legal rights over the sale of their labour. Despite the recent removal of job reservation legislation and influx control, in practice, non-white workers still face formidable obstacles. Other socialist regimes enforce similar restrictions on individual choice of jobs, especially, though not exclusively, through centralised planning (7).

*Apartheid's Restriction Upon Markets for Land and Land Resources:* Transactions concerning land likewise have been conspicuously and severely circumscribed by Group Areas legislation and the



formation of bantustans. Ownership rights are subject to the authoritative designations of the government. As a consequence it is as though housing were a nationalised commodity.

Less obvious and contrary to popular understanding, the mines have in effect been «nationalised». Mineral rights are detached from land ownership such that one can only sink a mine after paying licence and registration fees and eventually taxes/royalties on production. At present Anglo-American and its competitors are simply (admittedly well-paid) management firms which operate in the place of a state (usually overpaid) bureaucracy. The massive landholdings of the state and grants of real property to the bantustans is likewise incompatible with a capitalist system which relies upon broad rights of private ownership.

*Apartheid and Obstruction of Competition:* Free exchange in South Africa faces further restrictions in the form of numerous agricultural Control Boards (8). These boards fix prices and create and protect regional commodity markets. There are numerous other legal restrictions on market activities including foreign exchange and capital controls and state monopolies. None of these restrictions is consistent with free-wheeling capitalism despite recent announced moves by the government toward privatisation.

*Concentration in South African Industry:* It is recognized that the peculiar form of capitalism in South Africa is not beyond reproach. The presence of cartels, state-sanctioned private monopolies and the apparent generally favourable treatment of especially large-scale capitalists has served the radical's conspiracy notion very well. Yet it is just this cozy sort of arrangement that stifles capitalism or at least entrepreneur-guided free enterprise. It is ironic that the opponents of the present regime have accepted the government's strategic propaganda which seeks to identify South Africa as a bastion of free market capitalism. In playing along with such a charade, the government actually serves the strategic purposes of those opposition groups who would reject decentralised market decisions in favour of a centralised or planned economy.

*Apartheid as an Inefficient Tax:* Aside from welfare losses associated with normal monopoly-seeking behaviour, South Africa suffers from a peculiar form of rent-seeking behaviour which involves a well-developed and rational political entrepreneurship. The outcome of the policies generated by the political entrepreneurs has had the effect of an (inefficient) tax placed upon the population at large which redistributes income towards the ruling party, state employees and other recipients of state largesse.

In the sense that taxes reduce the purchasing power of the «taxed» individuals, apartheid can be seen as a tax. However, it tends to be highly inefficient in as much as it has led to reductions of, or limitation upon, the potential tax base. Without querying the justness of taxing certain groups as a means of supporting the institutions of apartheid, it is clear that the present system is far from optimal in terms of efficiency.

*Apartheid and Class Struggle:* Thus, it can be argued that South Africa's maldistribution of income so frequently cited may have little to do with capitalist exploitation *per se*. Instead such unequal distribution of income and wealth stem from selective and purposeful activities of individuals or coalitions (of all types/classes) to encourage intervention by the state to benefit such diverse groups as (white) trade unions, business interests, state employees, university lecturers, and so on. Apartheid is not a function of class struggle as such. It reflects the outcome of a special type of rent-seeking which in turn establishes secondary opportunities for further rent-seeking. In fact, one of the intentions of apartheid was to obstruct development of «class» or worker hegemony of (white) trade unionists and replace it with racial hegemony (Welsh, 1974; 274).

### *Political Consequences of Economic Power*

A further argument goes beyond the liberal critique of apartheid. This position suggests that apartheid relies upon a procedure to «beggar thy neighbour» as both a means and an end. This relationship can be best understood by examining the bond between economic and political power. It will be argued here that the demand for political rights arises from the emergence of economic power, viz, the demand for political rights is seen to increase with increases in private source wealth and income. Political power serves as a means to secure one's economic position. If this is so, the impoverishment of the groups excluded through apartheid would set bounds upon both their means as well as their incentives to develop political power.

Naturally a policy which impoverishes a significant portion of the population has costs even to its perpetrators. In simplistic terms, the shrinking of the overall size of the economic pie implies that even those who maintain the largest slice will be worse off than with an enlarged pie. However, the costs to the advantaged group tend to be invisible since they may simply involve foregone opportunities of

economic growth. The impact only impinges upon the protected group as declines in growth rates become conspicuous. As discussed earlier, Olson's theory of group cohesion (1971) would predict that the decline in economic growth forces a reappraisal of the benefits of continued support. Such reappraisal would be most critical to the decisions of the many unwilling beneficiaries who toed the line principally to avoid the costs of defection, e.g., social ostracism, moral opprobrium and/or legal prosecution.

As Hirschman (1970) predicts, the recent decline of economic growth generated pressures for more vociferous voicing of opposition. Even the nominal supporters of the government have begun to demand an undertaking of negotiations with opposition forces or have simply defected to other political organisations.

A final impetus for disassociation with apartheid has been noted above in terms of the evaluation of individual costs and benefits of participating within or challenging the institutional structure (Olson, 1971). The expected benefits derived from defecting from or challenging the legal apparatus must offset the anticipated costs, legal and otherwise, as a precondition for action against even the most morally offensive set of rules. A critical mass has finally been reached in South Africa where all of these conditions are in place. Isolated attempts to challenge the system in the past would have involved costs in excess of the payoffs derived from linking up with groups which reflected the broad interests of the majority. These are numerous pretenders for this distinction(9).

### *Apartheid and Socialism*

The most important result of the above reasoning emerges from the contention that the nature and consequences of apartheid lies within the social(ist) interferences with free exchange whether in terms of economic, social or political activities. In short, the types of restrictions placed upon individual freedom of choice are necessary to or, at least, more compatible with a socialist programme.

It is clear that influx control can be and often is based upon factors other than race. However, such control for any rationale represents an authoritarian restriction on individual rights which is normally accompanied by limited access to individual remedy. Such offensive policies should be discredited as a matter of principle, not simply on the basis of special (racial) pleading. It is an interesting and illuminating test to ask South Africans if they consider it socially just to apply influx control if based upon criteria other than race. Advocates of a market economy are certain to answer in the negative. «Progressives», for example those associated with the United Democratic Front, might be expected to answer in the affirmative.

The chronically disproportionate distribution of power in South Africa can be better understood by rejecting the mono-causal attachment of blame to a single interest group, e.g., capital. In fact, the ability of special interest coalitions to utilise and direct the coercive powers of the state for their narrow benefits is a condition found in most state structures. Afrikaners have found it to their group advantage to impose racial hegemony through selective economic benefits. Their success was based upon an ability to direct the machinery of the state for the benefit of whites. Those who suffered the most from the excesses should understand that these excesses were generated through misuse of centralised political power. It should be convincing, therefore, that strict delimitations of central power will best serve the interests of the oppressed groups in a post-apartheid order.

It is undeniable that some measure of the excesses of apartheid were the result of actions taken in collusion with the state in order to promote self-enrichment of some capital owners. (The same impulse—to restrict competition—however, was present in attempts by skilled, white workers to limit the access of unskilled, black workers to the labour market.) For the most part capital owners simply responded to the incentives established by the political structure. Similar abuses of power and injustices associated with contrived monopoly rights are likely to emerge from the self-aggrandizement or enrichment of any special interest coalitions which could capture political power. If this assertion is correct, then the removal of the injustices associated with apartheid requires a change in the incentive structure of the political institutions to remove the temptations for rent-seeking and the authoritarian abuse of power.

The argument for institutionalised restraints on political structures to inhibit the subsequent use of the state monopoly on coercion represents a consistent argument which should be examined by any group which would wish to rule South Africa. The issue at hand should not simply address the racial content of authoritarianism nor seek to attenuate private property rights. Focus should rather be upon institutional and constitutional means of eliminating authoritarianism and the sources of power accruing to interest groups.



Ironically, various attempts to portray the present regime as fascist (Bunting, 1964; Simon, 1980) are relevant in establishing the compatibility of apartheid with socialism. Characterisations of South Africa as a fascist (national socialist) state have great symbolic power. On the one hand, it is intended to inspire an emotive opposition to the present regime. On the other hand, a type of rhetorical reductionism is implied such that any set of ideas which are contrary to the «progressive» opposition forces might be associated with fascism.

Although the notion of South African fascism is disputed by Adam and Giliomee (1979), whichever definition is selected for fascism, i.e., whether emphasis is placed upon repression or enforced ideology, these operations require massive state intervention. In particular, monopoly capitalism and protection of nominally private firms is enforced through the state apparatus to the detriment of individual entrepreneurial initiatives. The hindrance of profit-seeking entrepreneurs reveals a tendency which is anathema to the market economy. While the analysis of South African fascism is unconvincing, the robustness of its claims should simply provide support for the apartheid-as-(national)-socialism argument presented here.

### *Competitive Processes and the Demise of Apartheid*

Even if the radical-Marxian argument that the present government and its apartheid policies depends upon the support of the business sector for continued survival is accepted, a break in this supposed marriage of convenience would undermine the government and its race-based institutions. Thus, the government is in the contradictory position to give in to demands of the business sector in order to sustain economic growth to maintain the level of public expenditures required to maintain the apartheid structures.

#### *The Contradictions of Competitive Processes with Apartheid*

Competition, which is so severely curtailed under apartheid, is a crucial component of capitalism. It is through competition and entrepreneurial action that profits, the guiding element of capitalism, are generated. Policies which have curbed competition in South Africa were not designed to obviate profits per se. In fact, these restrictions do protect a particular group of capital owners. It is understandable that this opportunity has led to some capitalists entering into a conspiracy with the apartheid regime. However, it is clear that business interests have often clashed with apartheid policies and institutions so that it is erroneous to claim a clear, consistent line of mutual dependency.

Restrictions upon competition, e.g., assignment of statutory monopoly rights, hinder the efficient functioning and beneficial results of a market economy. State-sanctioned monopoly rights have been both a means and an end of apartheid. It is important to note that these results are similar to the inequities and inefficiencies which are generated by the huge, monopolistic state international trading companies of the socialist nations.

Consistency of stated intentions aside, state-sanctioned monopolies and other curbs on competition are unquestionably in closer accord with socialism. Despite claims to the contrary, socialised monopolies are even less likely to react to the demands of the people due to the coercive capacity of the state to make up shortfalls through raising taxes. Private monopolies, which face tighter budget constraints, though reluctant, will have to abide more closely with market impulses.

In this light, the most appropriate way to remove the monopoly power of capital is to reject state intervention rather than to rely upon it as a cure. As argued above, state intervention is the real culprit in creating and protecting monopoly whether in a socialist or a mixed economy. The simple recourse is to reduce the powers of coercion vested in governments; to reduce the state's capacity to sponsor *monopoly capitalism* and to encourage instead, *entrepreneurial capitalism*.

#### *Shifting Position of Capital*

As described above, as coalition partners business interests can choose to opt out of the coalition, voice disapproval in order to seek remedial changes, or simply remain loyal (Hirschman, 1970). Capitalists have found it be increasingly disadvantageous to have even remote association with National Party apartheid policies. The sources or pressures which have led to the selection of the exit and voice options will be examined in this section.

There are at least three sources of the reduction in the net benefits of coalition which will lead to a breakdown in the increasingly unhappy, always tenuous, union between business and the government.

The shifting winds of international economic activity have reduced the absolute economic power of big business. Sanctions and the loss of international respectability have raised the international ante. Continued association with the current regime has also led to increasing domestic costs for the local business community. Rising taxes and «guilt by association» as an apparent economic cohort of the government generate considerable pressure to disassociate with or demand reform. Capitalists see a need for the development of conditions conducive to an expansion of the domestic economy. Improvement in the domestic economic environment has become more urgent as earnings in export-oriented activities evaporated for economic or political reasons.

On the other hand, small businesses show promise in terms of a growing relative importance in the South African economy. Some policies which may be envisaged as a boon to big business may be a bane to small, newly emerging firms. Entrepreneurial openings for such firms as rent-creators as well as rent-seekers serve further to weaken the cooperation between capitalists and the government.

Finally, the absence of an identifiable and viable political opposition provides business enterprises with no means to counter government policies found to be against their interest. An extra-parliamentary political opposition likely to be an important player in the development of future institutions is only beginning to emerge. Only when a cohesive opposition forms will producers and other interest coalitions seek greater visibility in the camp of this opposition in order to establish contacts which will reduce anticipated future costs of any transformation or reform of the South African economic and political scene. Recent acts of goodwill in meeting with ANC representatives by South African business leaders are the result of a change in conditions in the nature of extra-parliamentary, opposition groups. Reluctance to associate with such groups in the past was due to the lack of a monolithic structure which defines the opposition. Earlier attempts at negotiations would have taken place in relative isolation. Negotiations are pointless if the bargaining partner has uncertain support and is unable to muster a consistent political will.

#### *The Effect of Interest Coalitions upon Economic Growth*

Building upon his earlier work cited above, Olson (1982) provides an alternative argument to the source of the fiscal and/or legitimation crises of the state. The analysis concerns a socio-political model of economic performance. The consequence of collective action within a macroeconomic framework is developed as an expansion on his work on the logic of collective action discussed above. Substantial historical and empirical support has emerged in support of this hypothesis (Mueller, 1983).

Olson concludes that the dead-weight effects of increasingly prevalent distributional coalitions (special-interest groups) will eventually generate a slowdown in economic growth due to the increase in rigidities which are introduced into the economy and the polity. The ubiquity of these coalitions arises from increased political sophistication and improved communication, among other factors.

The weakening of the economic growth potential emerges from a reduction in the extent of what Hicks identified as the «flexprice» sector of the economy (Olson, 1982: 209). Political support of distributional coalitions will allow them to exercise a monopoly position and to set prices above market-clearing levels. When shocks occur to the economy these coalitions will resist adjustments or tend to be slow in doing so. The loss in resilience in the economy is expected to exacerbate business cycles and build in a high and rising non-accelerating inflationary rate of unemployment or «Nairu» (ibid.: Chapter 7). Ironically, at a certain level of pervasiveness of distributional coalitions, the redistributive effect of transfers will dominate and possibly offset the intended welfare-improving effects of redistributive tax policies.

In light of the observed effects of interest coalitions in general, and the manifestation of Afrikaner nationalism in the emergence of systematised apartheid policies specifically, effective institutional reform in post-apartheid South Africa should focus upon limiting the impact of such coalitions. Such limitations require a general tendency towards decentralisation of economic and political decisions.

#### *Institutional Reform in Post-apartheid South Africa*

Although it might be admitted that there appears to be «a symbiotic relationship between the [South African] state and big business» (Stadler, 1987: 22) there are substantial grounds to question the causal links between the market and apartheid. In fact, in a disputatious review of other radical/Marxian arguments, Wolpe (1988: 59) asserts that «there is a contingent and, therefore, historically specific relationship between the capitalist and racial order».

The liberal-radical debate over the relationship between the business sector and apartheid is part of a larger debate concerning the compatibility of market system with individual autonomy. The



collectivist claims of apartheid have been shown to contradict the individualist claims of the market system. In fact these collectivist claims involve the same principles used to justify state intervention to benefit the Afrikaner, society, trade unions or a given economic or social class. The above analysis suggests that the elimination of apartheid does not benefit nor require restraints upon the market. Instead it is suggested that post-apartheid institutions should place severe limits upon the actions of political agents.

Other support for the disassociation of the market system from apartheid arises from the intent of the predecessors of the present ruling party as well as from Marxian analysis itself. In the early part of this century, the declarations of aspiring Afrikaner politicians often revealed a rabid, anti-capitalist tone (Williams, 1989). This suggests that apartheid was motivated in large part by politicians which had an historical disdain for free enterprise. Additionally, the Marxian complaint against market based societies on the basis of their atomistic tendency and individuation (BELLAH, et al, 1985) is contradicted by the group orientation which has been the focus of apartheid.

As suggested above, excessive rigidities in the South African economy are imposed by general rent-seeking behaviour and by apartheid in particular. These have ultimately restrained the growth of the South African domestic economy. The implication then is that the crucial cause of the economic malaise is not the racial content of authoritarianism nor does the cure require the attenuation of private property rights.

What seems of greatest relevance in the development toward a post-apartheid situation is the encouragement of economic growth and recovery to induce the transformation of certain economic and political institutions. For example, the most effective re-distributive scheme affecting blacks in South Africa is the result of «dis-intervention». Partial de-regulation within the transport industry has led to momentous entrepreneurial activities among blacks in the investment in a massive network of inter-city taxis. The result has been rising incomes and the accumulation of great wealth among a rapidly growing number of blacks. This transformation will be more beneficial to the growth of the economy than would re-distribution by forced transfers of income (wealth) from one group to another.

In the longer term, unless there are (e.g., constitutional) limitations placed upon the opportunities for the formation of rent-seeking distributional coalitions (Brennan and Buchanan, 1985; Lee and McKenzie, 1987), reform and even «revolution» will simply change the location of the impact of interventionist policies. Such a result is rather like the logic of transference of pain where one smashes a thumb to forget about a headache. Surely a more appropriate course of action would be to address the sources of the agony, that is, to propose radical transformation of political institutions to limit policies which allow the socially wasteful activities arising from rent-seeking behaviour of special-interest coalitions.

## Notes

(1) The liberal position can be located in Lipton (1986) and Bromberger and Hughes (1987). Representative discussions of the radical/Marxian viewpoint are found in Yudelman (1984), Greenberg (1980), Wolpe (1988), Stadler (1987) and O'Meara (1982).

(2) This viewpoint is well-argued by Becker (1971) and Sowell (1981).

(3) For example, it is well known that white trade unionists enlisted the aid of the state for protection from competition of black workers (Hutt, 1964: 62).

(4) For a description of the concept of rent-seeking and a review of related literature, see Tollison (1982). Interest-group behaviour within a political context is discussed in Anderson and Hill (1980) and McCormick and Tollison (1981).

(5) While the state can serve as the source of capital in a socialist economy, there is no possible substitute for the entrepreneur who responds to market impulses (Kirzner, 1973 and 1979).

(6) The importance of this tool is of equal importance to dictatorships and one-party states as a means for maintaining «legitimacy».

(7) For example, influx control still exists and is unchallenged as a socially productive policy in the USSR. In China there are no longer explicit laws which limit urban influx; however, urban accommodation is effectively controlled either by «work units» or municipal authorities. Likewise, squatting in urban areas is strictly prohibited in both countries.

(8) Interestingly, the success of the reform of Chinese and Hungarian socialism is a consequence of the elimination of the inefficiencies stemming from the control of agricultural markets. For a discussion of the relevance of Chinese reforms to South Africa, see Lingle (1988).

(9) The African National Congress (ANC), the Pan-African congress (PAC), the United Democratic Front (UDF), and Inkatha are but some of the political or cultural groups which make such claims.

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