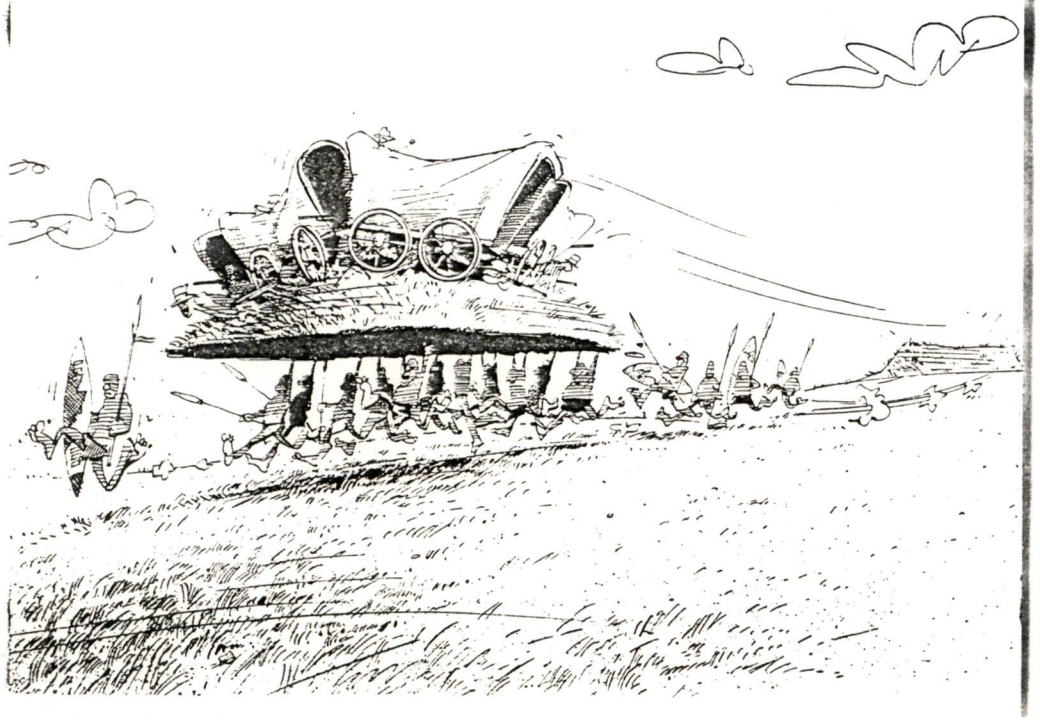
S. Africa, 1991-92, Mtrls

REDISTRIBUTION

How can it work in South Africa?

edited by Peter Moll, Nicoli Nattrass & Lieb Loots



3

A tax strategy for redistribution

LIEB J. LOOTS

This chapter starts off from the premise that 'redistribution' (reducing poverty and inequality) is a desirable policy objective and worthy of serious consideration by economists. Moreover, any concern with the sustainability of a programme of redistribution must necessarily give consideration to the relationship between redistribution and growth. This discussion of tax policy in South Africa is no exception.

Economists have long adhered to two fundamental concepts of fairness: horizontal equity and vertical equity. These principles could be seen as dealing with substantive fairness. However, while not underestimating the importance of these two principles, I argue in this chapter that we should be especially concerned with perceived fairness.

The concern with perceived fairness makes particular sense in the context of my primary concern in this chapter, that of an efficient tax structure. The focus on efficiency reflects the view that the overall redistributive effect of the government's fiscal policies is more dependent on the expenditure side than on the tax side of the budget.

Redistribution is a function of the whole fiscal system. The perceived fairness of the tax system obviously depends on the vantage point of the individual or interest group concerned. Equity and justice in the design of tax systems are complex. The answers to such questions will vary with the particular notion of justice that is chosen. Nevertheless, it is likely that 'perceived fairness' in a newly democratised South Africa will be strongly influenced by the (perceived) redistributive characteristics of the fiscal system as a whole and not just the tax structure.

While the concern with redistribution thus applies to the fiscal programme as a whole, the efficiency of the tax system itself can be severely undermined if it is perceived as unfair. The poll tax in Britain and township rates in South Africa are just two of the most notable current examples. The large degree of income tax avoidance in many countries and a tax morality which undermines voluntary compliance, are too well known to be ignored. The perception that the tax system, or a particular tax, is not fair, would be an

important contributing factor in many of these cases. Efficiency demands that attention be given to perceived fairness.

It is necessary, therefore, that 'both' sides of the redistributive divide should perceive the tax system as fair. On the one hand it is necessary to increase the likelihood of more voluntary compliance with the tax laws and minimise the extent of tax avoidance. On the other hand it is necessary for the majority of the electorate to perceive the tax structure as fair enough so as not to push for taxes which may have a harmful effect on the economy. 'Fairness' thus remains an important prerequisite if we want to maximise state revenue through an efficient tax structure.

In short, I argue in this chapter that the main task of policy on the revenue side is to construct a tax system which is efficient in raising revenue on a sustainable basis. This in turn determines the degree of redistribution which can be obtained on the expenditure side of the budget. If the fiscal system is perceived as fair it is more likely that tax avoidance can be prevented and voluntary compliance adhered to.

Not only must the overall rate of taxation in the economy be sustainable from year to year, but it is also necessary that the tax system promotes growth, or at least does not hamper it, in order to be able to increase government revenue as a proportion of GDP. Only then will it be possible for a programme of redistribution to be sustained and indeed extended. This necessitates that fiscal policies, and tax policies specifically, give due weight to the encouragement of growth. This is discussed in the latter part of this chapter.

Thus, a progressive and sustainable strategy of redistribution demands a tax structure which is efficient in raising revenue, something which is only possible if the tax system is perceived as fair. A sustainable strategy of redistribution also requires that further significant increases in the overall tax level in the economy be considered only in the context of rising per capita incomes. The most important determinant of the rate at which this can occur, is the growth rate of the economy. Sustainable and extendable redistribution thus also necessitates a tax system which can promote economic growth.

TAX STRUCTURE

The first issue to consider regarding the efficiency of the tax system, is the tax structure, including both the share of government revenue in GDP and the composition of government revenue. These will be discussed in turn.

Overall tax level

The share of government revenue is important as there is a strongly held opinion amongst most tax analysts that too high a government share of GDP may have negative allocative and growth implications for the economy. What 'too high' might be is of course debatable and I shall not attempt a specification of such an optimal level. However, an international comparison of government revenue levels provides an indication of the appropriate order of magnitude for a country with South Africa's level of development and per capita income.

Table 3.1 places South Africa among the middle-income countries in terms of the share of total tax revenue in GDP in the early 1980s.

Table 3.1. Share of tax revenue in gross domestic product: selected countries

	1980/1	1987
Industrial countries:		
Ireland	34	40
Germany	38	38
United Kingdom	35	38
Greece	29	37
Italy	30	36
Spain	24	33
Portugal	29	31
United States	30	30
Japan	25	30
Unweighted mean, OECD countries	35	39
Developing middle-income countries:		
Brazil	23	
South Africa	20	27
Turkey	22	24
Singapore	18	
Argentina	19	
Developing low-income countries:		
Zimbabwe	24	
Indonesia	22	
Zaire	18	
India	16	

Source: Margo Commission Report (1987) and Owens (1990), p. 33.

The shares in Table 3.1 suggest that it may be possible for a middle- or lower-income country to increase its tax revenue to between 20 per cent and 30 per cent of GDP, but that tax revenue above that and particularly shares above 35 per cent of GDP may well be the preserve of countries with a high per capita GDP. By 1990, South Africa had already pushed its total government revenue up to about 30 per cent of GDP (*Statistical/Economic Review 1990/91*). This suggests that further increases in government revenue from taxation may not only be difficult to introduce without allocative and growth costs, but may well be dependent on increases in per capita GDP, something South Africa, in contrast to all other countries with tax shares higher than itself, was not able to achieve during the 1980s.

Together, the OECD countries, in spite of their positive GDP growth rates, increased the tax level by only 4 percentage points over the period 1980–7,

after which the tax ratio stabilised, and in some cases started decreasing moderately towards the end of the decade (Owens, 1990). This may serve as a caution to policymakers in South Africa not to increase the tax level too rapidly without careful analysis of its possible effects on the economy. At the very least, it suggests that the maximum increase in the tax level could be between 0,5 percentage point of GDP per year (roughly the OECD average for 1980–7) and 1,0 percentage point of GDP per year (roughly the South African average for 1980–90) – given that other factors, such as a positive growth rate, are favourable.

One rationale in support of such a proposition has to do with the nature of much of government expenditure. Even if it will eventually lead to greater productivity – for example, as a result of spending more on education – it will only happen over a relatively long period of time, or only occur in relatively small increases per year. Where this kind of 'social investment' has been inadequate or ineffective in the past, as is the case in South Africa, this gestation period is bound to be even longer or more gradual. In the interim, the much faster increase in 'investment' expenditure, in contrast with the increase in the stream of benefits resulting from it, might well create enough instability in the economy to seriously undermine the very objectives which the rapid tax-level increases were intended to achieve. In other words, given the legacy of wasteful apartheid expenditure, and even assuming that the South African tax level has not yet reached some optimal level, there is a case to be made for a very gradual, rather than a rapid, increase in the tax share of GDP.

Ultimately public spending is limited by the ability of the public sector to transfer to itself resources from the private sector through taxes (and less importantly from charges) on current economic activities, or to issue public debt secured by taxes on future economic activities. If the deficit is to be contained within acceptable limits and if the tax level can only be increased gradually, it follows that the potential increase in total government expenditure will be determined largely by the increase in GDP.

It can be deduced, therefore, that tax reform in South Africa, while aimed at gradually increasing the overall tax level, should primarily be concerned with the equity and efficiency aspects of the tax system. The tax mix, or tax structure, may consequently be of much greater importance for tax policy, at least over the short term, than the level of taxation in the economy.

Tax structure in South Africa

South Africa underwent some significant changes in its tax structure between 1975 and 1989, as Table 3.2 shows.

In broad relative terms there has been a shift away from direct taxes towards indirect taxes, although the former slightly increased their share in terms of GDP. This has been brought about mainly by the increased share of GDP collected in the form of GST.

Within the structure of direct taxes there has been a significant reduction

Table 3.2. Shares of various sources of government revenue

Classification of source	*South Africa* 1975/6 % of GDP	1975/6 % of total rev.	1980/1 % of GDP	1980/1 % of total rev.	1989/90 % of GDP	1989/90 % of total rev.	*OECD* 1980 % of total rev.	1988 %of total rev.
Individuals	–	–	3,3	13,7	8,0	27,0	31	29
Companies	–	–	3,8	15,8	4,6	15,7	6	7
Gold mines	–	–	4,4	18,3	0,4	1,5		
Other mines	–	–	0,3	1,4	0,6	1,9		
Non–residents' share tax	–	–	0,5	2,0	0,2	0,6		
Direct taxes	12,4	53,2	12,4	51,2	13,8	46,7	37	36
Customs + Excise	–	–	2,3	9,7	3,7	12,5	10	10
Sales tax	–	–	2,6	10,8	6,9	23,5	13	16
Local/reg. govt.	2,9	12,4	3,0	12,4	3,6	12,2		
Other taxes	–	–	0,6	2,3	0,6	1,9	6	4
Indirect taxes	6,7	28,8	8,5	35,5	14,8	50,1	29	30
Social security	–	–	–	–	–	–	24	24
Miscellaneous	4,2	18,0	3,2	13,3	0,9	3,1	10	10
Total revenue	23,3	100,0	24,0	100,0	29,5	100,0	100	100

Sources: Calculations based on Margo Commission Report (1987); *Statistical Economic Review 1990/1*; and Owens (1990).

in taxes on gold-mine incomes. This has been more than compensated for by the increase (in real and relative terms) in personal income tax. Non-mining company income tax in South Africa, while increasing slightly as a proportion of GDP, maintained roughly its share of total tax revenue. However, if mining is added, as is the case in other countries, the share of company income tax drops quite significantly (Table 3.2). It fell from 8,5 per cent of GDP and 35,5 per cent of total tax revenue to 5,6 per cent and 19,1 per cent respectively. This contributed to the shift towards indirect taxes.

While the tax structure has therefore become less progressive overall, the test of fairness ('vertical equity' in economic jargon) should apply to each tax individually and not necessarily to the tax system as a whole. Whatever the exact progressivity of a particular tax might be, however, it may not be possible to increase the revenue capacity of the tax system without, at the same time, making the whole tax system less progressive than before.

For example, once all the direct taxes, which can be more progressive than indirect taxes, have been introduced, their bases extended to the maximum and their rates raised to the maximum levels, the only way in which the tax capacity of the economy can be extended is through the introduction of indirect taxes. Moreover, in reality the attainment of such an optimal situation

with respect to direct, progressive taxes is hardly ever possible and the need therefore remains to capture untapped tax potential which is lost through the direct tax net.

All countries have a tax system consisting of a whole range of direct and indirect taxes. A goal with tax policy should be to develop a balanced tax system, rather than maximum progressivity for its own sake. High top-income tax rates without less progressive indirect taxes could therefore not only fail to guarantee effective (or realisable) progressivity, but might also reduce the total revenue which could be raised, particularly from the wealthy for redistribution on the expenditure side.

The relevance of the last point to the questions of equity (fairness) and efficiency, is that this may be an instance where both efficiency and equity could suffer as a result of a too rapidly rising tax gradient (how quickly tax rates increase as incomes increase). This gives an incentive to high-income salary earners to avoid tax, or for companies to find non-taxable ways of remunerating their high-salaried workers. Middle-income salary earners thus carry a relatively heavier tax burden than other taxpayers with the same or even higher incomes. Not only does equity suffer as a result, but also efficiency. Less-than-optimal tax revenue could be the result.

The belief that this is not just a theoretical possibility but a real likelihood, has led to an international trend towards lowering rates. The lowering of top rates is reflected in Table 3.3.

Table 3.3. Top and first positive rates of the central government personal income tax: 1986 and 1990

Country	*Top rates*[a]		*Country*	*First positive rates*[a]	
	1986	1990		1986	1990
Sweden[b]	50	20	United Kingdom	29	25
United States	50	28	Germany	22	19
United Kingdom	60	40	Italy	12	10
Japan	70	50	Japan	10,5	10
Greece	63	50	Turkey	25	25
Italy	62	50	United States	11	15
Spain	66	56	Greece	10	18
Germany	56	53	Sweden	4	20
Turkey	50	50	Spain	8	25
Unweighted mean of all OECD countries	54	43		15	17
South Africa	50	44	South Africa	–	16

Notes: [a] 'First positive rate' refers to the tax rate applicable to a tax payer when he/she first starts paying income tax. 'Top rate' refers to the highest tax rate applicable to any additional income earned by taxpayers in the highest income bracket. [b] Sweden 1991.
Source: Owens (1990), p. 42.

Virtually all OECD countries have, between 1986 and 1990, reduced their top personal income tax rates. The unweighted mean fell from 54 to 43 per cent of taxable income. A similar trend, of almost exactly the same average dimensions, can be observed among developing countries (OECD, 1990b). However, this did not result in a significant reduction in the share of personal income tax in total tax revenue. The two most likely reasons for this are the reduction of the tax avoidance incentive as a result of the lowering of top rates and the (related) removal or limitation of tax reliefs (Owens, 1990).

The overall conclusion is thus that the widespread reforms of the personal income tax structure, and particularly the strong trend towards the reduction of top rates, have not significantly reduced the overall progressivity of the tax structure. It has improved, however, the efficiency of personal income tax by making it more simple (thus reducing compliance costs), more equitable (through the removal of selective tax relief) and more neutral (through making it less likely that the personal tax system will influence people's decisions). Such tax reform thus moves closer to an optimal balance between equity and efficiency.

TAX POLICY AND REDISTRIBUTION

I have already argued that the challenge of tax policy is to design a tax structure which is efficient in raising revenue and perceived to be fair, and then spend the revenue in a way which can achieve sustainable redistribution. The redistributive potential of the tax system is more fully explored in this section.

Taxation of income

The distribution of income in South Africa shows a substantial degree of inequality. In South Africa, the legacy of apartheid is one of the most unequal distributions of income of any country for which statistics are available. This high degree of inequality is the result of both the unequal investment in labour skills or ability (human capital) and of the legal, social and demographic forces which determine relative wages and salaries. It is therefore certain that distributional concerns will continue to be a vital factor in politics and policy determination.

It is postulated, therefore, that in a post-apartheid and democratic South Africa, public expenditures on social investment (in human capital), benefits-in-kind (including merit goods) and transfer payments will become an important part of the 'social wage' (improvements in the quality of life of workers provided to them by the state). The benefits of public expenditures will continue to play an important political role in the post-apartheid era.

Most economists agree that there is a limit to the amount of redistribution that can take place through the tax system. In crude terms, it is argued that taxes cannot make poor people rich. If our main concern is with poverty as such, with the waste and misuse of human resources which it produces, remedies must come primarily through the expenditure side of the budget.

This could be done either by direct public provision of such services as housing, medical care, and education, or by simple transfers of income, or through employment-creating policies.

It is in this context that I wish to argue that the tax system, while perceived to be fair, must have as primary objective the maximisation of tax revenues in order to meet the 'social wage' commitments on the expenditure side of the budget that are necessitated by political, moral and indeed economic imperatives.

Some indication of the distribution of income before and after personal income tax can be gleaned from Table 3.4, which was estimated on the basis of such limited information as could be obtained.

Table 3.4. Redistributive effect of income tax, South Africa 1984/5

Quartile	*Total income before ind. tax*		*Total individ. income tax*		*Income after*	
	Rm	%	Rm	%	Rm	%
0–25	1 775	2,5	0,0	0,0	1 775	2,8
25–75	24 331	34,8	0,0	0,0	24 331	38,9
75–100	43 895	62,7	7 377	100,0	36 519	58,3
Total	70 000	100,0	7 377	100,0	62 625	100,0

Source: Own calculations. See Loots (1991), Table 3.1.

The estimates, while they need to be treated with circumspection, suggest that it is likely that only 25 per cent of the economically active population earn about 63 per cent of income and pay virtually all of individual income tax. This must clearly have a redistributive effect on income shares received by individuals. The top 25 per cent, whose share of income before tax fell from 63 per cent to 58 per cent after income tax, lost out to the middle group, whose share rose from 35 per cent to 39 per cent.

While the imposition of a progressive income-tax structure has reduced the extreme concentration of personal income, the effect has not been

Table 3.5. Income tax paid by top 25 per cent of income earners

Percentiles	*Taxable income before tax* %	*Income tax paid* %	*Income after tax tax* %	*Average rate* %
76–80	3,4	0,03	3,80	0,01
81–85	10,2	1,30	11,25	2,20
86–90	13,3	5,84	14,18	7,59
91–95	26,2	21,94	26,70	14,48
96–100	46,9	70,89	44,07	26,14
Total	100,0	100,00	100,00	10,54

Source: Own calculations. See Loots (1991).

dramatic, hardly changing the position of the lowest quartile of the economically active. This is the inevitable result of the very skewed distribution of income and the extremely narrow tax base resulting from it. It also indicates the limited possibility of significantly increasing the personal income-tax base in the near future.

This is brought out even more startlingly by Table 3.5 which gives similar percentages for the top 25 per cent of income-tax payers only. The table suggests that such redistribution as is achieved through personal income tax, is mostly from the top 5 per cent of income-tax payers to people in the 25–75 per cent category. In spite of the fact that the top 5 per cent pay 71 per cent of all income tax, their share of income is only reduced from 47 per cent to 44 per cent as a result of the tax. While this group is already subject to an average tax rate of 26 per cent (39 per cent in the case of the top 1 per cent, the top marginal rate being 50 per cent), there appear to be efficiency constraints on increasing the income-tax rates in the higher-income brackets. It therefore seems highly unlikely that personal income tax can be used as a significant redistributive mechanism in the future. This is in line with the current thinking of most tax experts in the world.

Even if personal income tax cannot be used for effective redistribution, it should be subject to consideration for tax reform. Serious consideration ought to be given to making the tax more efficient. The strong international trend in this direction has already been noted. South Africa has started on the road of tax reform by, for example, reducing the top marginal tax rate from 50 per cent to 44 per cent. Broadening of the tax base has already begun, through taxation of fringe benefits and the imposition of ceilings on deductions from taxable income. Further tax reform in this area is desirable.

Widening the income-tax base takes the form of either abolishing or limiting (usually by ceilings) tax reliefs for specific expenditures (typically on home ownership, other interest payments and business expenses) or bringing new forms of income-tax into the tax base or widening the definition of such taxable income (typically fringe benefits and capital gains). If this were to be done in South Africa, income-tax revenue would probably be increased enough to compensate for the lowering of the top rate. A rough estimate suggests that reducing the top rate to 40 per cent with a maximum income tax of 30 per cent of income would result in a revenue loss of no more than about 4 per cent of personal income tax.

While such rate changes, if viewed in isolation, would appear to reduce the progressivity of income-tax schedules, it is likely that this loss of progressivity would be partially, if not totally, offset by base-broadening or by increases in tax thresholds. (In South Africa the tax threshold was increased by about R4000, or 69 per cent of its former level, in 1990.) To the extent that it would reduce the incentive for tax avoidance, such changes would further restore or maintain the progressivity of income tax. As such changes to income-rate schedules are dictated rather by economic efficiency and horizontal equity considerations than by vertical equity, it becomes an

empirical matter to what extent and in what manner they should be introduced. Tax policy research in this area is thus necessary.

A study of tax reform in Jamaica's personal income tax found that evasion and avoidance all but negated the progressivity of the statutory rate structure, leading to the reform of the tax system. It now appears that the combination of a higher standard deduction, a broadened base, and a lower flat rate has improved the administration and increased the progressivity of the tax system. Revenues from income taxes were 18 per cent higher in the 12-month period after the introduction of the reform.

There appears to be some potential for the widening of South Africa's income-tax base. Base-broadening should reduce or eliminate tax expenditures available only to certain categories of taxpayer, and those more easily exploitable by high-income earners.

Capital gains tax

The wealthy often receive income in the form of a capital gain. For reasons of equity, most developed and many developing countries have a capital gains tax in one form or another. It is a complex issue, but one which needs to be given serious consideration for the reason of perceived fairness already discussed.

The traditional concept of income, which is reflected in South Africa's tax legislation, draws a distinction between capital and income, and only regards gains in the latter as taxable. A more modern approach to the problem includes in the concept of income all accretions to the taxpayer's economic power, i.e. his power, whether exercised or not, to consume goods and services. According to this comprehensive approach, it is not necessary to distinguish between the different causes of an increase in economic power. It is therefore irrelevant whether the gain results from work effort, gifts, capital gains or some other windfall. The only requirement is that it must apply to realised gains.

There are many arguments in favour of and against the imposition of a capital gains tax. The Margo Commission concluded that the costs outweighed the gains and rejected it. A minority recommendation, however, was in favour of the principle of introducing a capital gains tax. It reaffirmed the majority report of the Franzsen Commission on this issue, believing that equity should be the deciding factor.

Most developed and many less-developed countries have opted for a capital gains tax on grounds of equity. These decisions were taken even though the fiscal authorities concerned were well aware of the complexities and administrative difficulties that have to be faced in applying this tax in practice.

The minority recommendation further argued that because wealthy persons own more capital assets than the less well-to-do, it is obvious that more capital gains will accrue to the former. Hence the exemption of capital gains promotes an unequal distribution of the tax burden and erodes the progressivity of the income tax system. Studies undertaken by the Brookings Institution indicate that in the United States richer people derive a relatively greater proportion of their 'economic power', i.e. their ability to pay, from capital gains, which also enable them to effect income switching. Critics of a capital gains tax emphasise its low yield. The Irish Tax Commission countered this argument as follows: 'On the contrary, we believe that a major reason for charging capital gains to tax is to prevent avoidance of income tax by switching income gains into a form in which they are regarded as capital gains. This is not only necessary for reasons of equity, as not all taxpayers are able to effect this kind of switch; it is also necessary for reasons of efficiency to prevent investment distortion. Furthermore, in so far as the presence of a capital gains tax deters such switches, it will serve to protect the yield of income tax. Thus, even on the narrow criterion of revenue yield, its contribution will be more than is apparent from looking at the yield of capital gains tax in isolation.' (First Report, 1982, p. 201)

A strong case thus exists, in the South African situation, to give serious consideration to the minority recommendation which expressed support for the version of a capital gains tax that would: be at a low rate and indexed for inflation; differentiate between short-term and long-term gains; be confined to dealings in fixed property and securities; be effective from a fixed date; allow for capital losses; and amend the definition of 'capital and income' in order to make it clear that the Commissioner of Inland Revenue would not have the option of imposing either capital gains tax or tax at ordinary rates.

Minimum business tax

Another aspect which deserves consideration for reasons of broadening the income-tax base and adding to the perceived fairness of the tax system is to place limits on the maximum number of deductions which can be claimed against income or tax in any one year, thus effectively imposing a minimum tax. Such a minimum income tax should apply to both companies and individuals, particularly those able to deduct excessive expenditures against revenue.

In the specific case of companies and other businesses, a minimum tax could also provide a corporate tax base that would be immune to some of the shortcomings of the income tax. These are that the profits tax base is too small (typically no more than about 20 per cent of GNP), too volatile, too easy to manipulate and too difficult to measure (especially in times of inflation and with respect to inventories and depreciation). Businesses have been able in the past to combine the available deductions, introduced to act as incentives for specific activities, in a way that eliminated their tax liability.

In addition, use of a profits base tends to penalise efficient firms, allowing inefficient firms to pay no taxes if they earn no profits, even if they have made huge demands on the infrastructure and other communal resources. In other words, the profits base gives too little weight to the benefit principle, which, however valid for individuals (particularly wage and salary earners),

is of doubtful relevance to companies.

Various possibilities exist in designing a minimum tax. For example, it can be expressed as a portion of taxable income before the subtraction of the concessional deductions; or it can be calculated as a percentage of the sum of the deductions themselves. Another possibility which warrants further investigation is to rest the minimum tax on a value-added base.

That base, essentially consisting of the sum of all incomes generated in a business less an allowance for gross investment, could form a base for a minimum tax, even if a major tax is not levied on that base. The base for such a tax is large, over 80 per cent of GDP. It can thus be introduced at a very low rate, so limiting distortionary effects. For example, assume that businesses manage to avoid paying on average 10 per cent of income tax. Company tax is currently about 5 per cent of GDP but should, under this assumption, be 5,5 per cent of GDP. The minimum tax, based on the additive value-added tax base, should thus be constructed to raise 0,5 per cent of GDP. With the tax base 80 per cent of GDP, a rate of 0,7 per cent will be enough to raise the required revenue.

The introduction of a simplified version of a minimum tax based on value added and using the information already generated by VAT, would also give the tax authorities experience in this type of tax which could inform future tax-reform considerations. It must be kept in mind, though, that such a tax would be a minimum tax only, providing a threshold below which income tax cannot fall. In other words, the minimum tax falls away as the income tax becomes positive and approaches the minimum tax level. It therefore would only penalise inefficient firms.

REDISTRIBUTION OF WEALTH

The unequal distribution of wealth in South Africa is well known and receives constant political attention. According to the studies of McGrath (1983), the ownership of private wealth is very concentrated in South Africa when compared with leading countries in the developed Western world. He indicates that the top 5 per cent of wealth-owners account for 88 per cent of personally owned wealth, compared with 54 per cent in Great Britain, 34 per cent in West Germany and 44 per cent in the United States. A tax system which does not address this inequality will be perceived as unfair by the majority of the population. It is thus necessary, in the interest of efficiency, that wealth be taxed in some form or another.

It has been pointed out that capital as such contributes to a person's ability to pay taxes, and consequently offers a further potential base for levying tax. However, it has been found that the revenue yield of capital taxes tends to be relatively small and that it 'is unlikely to be the dominant consideration in the introduction or retention of a capital tax' and that 'the main rationale for taxing capital relates to social considerations' (OECD, 1979).

More important than the revenue considerations is the concern in South Africa with the inequalities which were shaped, at least partially, by the

apartheid system. The main rationale for taxing wealth relates to social considerations, i.e. considerations of equity between persons within society. This concern is not adequately addressed by the taxes to which capital is currently subject, i.e. an estate duty, a donations tax and local-authority land taxes. It is for this reason that some other potential capital taxes are considered.

A balanced and more efficient tax system will have a progressive tax pyramid, i.e. flat-rate consumption taxes at the bottom, progressive income taxes in the middle, and capital taxes (as well as luxury consumption taxes), which affect only a few, at the top.

Wealth tax

Two of the arguments raised against a wealth tax are that it creates substantial administrative complications and is costly to administer, and that it penalises saving and may act as a disincentive for taxpayers to save.

The administrative and cost problems associated with a wealth tax have been documented and must be taken seriously. Moreover, if the rate is high in order to raise more revenue or make a more effective impact on the distribution of wealth, capital tends to migrate to another tax jurisdiction where a lesser burden is imposed.

The determination of the tax base raises questions about the inclusion of such things as household effects, personal effects and jewellery, pension rights, life assurance policies, works of art, owner-occupied houses and patent rights, copyright and goodwill. The valuation of assets poses a serious problem to the introduction of a net wealth tax. Some of these problem assets are unquoted shares, unincorporated businesses, agricultural land, usufructuary rights and other immoveable property.

Another problem with an annual net wealth tax is the effect it will have on the market prices of assets. If someone bought an asset many years ago when the market value was low and found its value increasing faster than the current income of the owner, a net wealth tax could create serious cash-flow problems for the owner.

It is worth taking note of the Margo Commission's mention of the fact that both the Carter Commission (Canada, 1966) and the Asprey Committee (Australia, 1975) considered the possibility of a net wealth tax, but rejected it. The Irish Commission (1982) came to the conclusion that, provided income – including realised capital gains and gifts and inheritances – is charged to tax on a comprehensive basis at a single rate and dissavings are charged to a direct expenditure tax at progressive rates, the case for a general tax on capital is weak. That commission accordingly recommended that an annual wealth tax should not be introduced.

Capital transfer tax

Following the recommendation of the Irish Commission that the taxation of capital through the imposition of comprehensive taxation of gifts and inhe-

ritances should be imposed, our attention turns to the capital transfer tax. Death duties and donations are indeed transfers of capital.

Capital transfer taxes are found in most OECD countries (Margo, 1987). South Africa already has death or estate duties and associated gift taxes. These taxes are not integrated, though, and are also so low as not to have any marked effect on the concentration of wealth.

Consideration ought therefore be given to a single capital transfer tax to be imposed on dispositions of property for no or for inadequate remuneration. Special attention must also be given to the effect of inflation on the value of assets and the use of interest-free loans on a large scale to transfer real wealth free of tax. It is imperative to tax such loans as the lack of interest charged could be regarded as a taxable capital transfer. It is also necessary to look at generation-skipping devices such as trusts. These should also be subjected to the tax.

A capital transfer tax has certain advantages over an inheritance tax, although the latter takes account of the ability to pay which the donee or heir acquires. On balance the former seems preferable at this stage.

Property tax

The possibility of introducing a national (fixed) property tax should be investigated. At the moment rates on property collected by local authorities vary from authority to authority. It also leaves the possibility that some local authorities, even after the introduction of a single tax base, could maintain rates lower than in other areas. This inequality would be further enlarged if local authorities were to be responsible for their own property valuations.

In an urban context investigation should be made into a property tax, imposed nationally (or regionally) and on indexed and regularly revalued fixed property, on which a local premium could be piggy-backed; such tax should be earmarked for grants to local authorities according to a set formula. It may also be desirable to make such a tax progressive, subject to the constraint that productive improvements (investments) should not be taxed as this would be taxing the source of growth. The tax will add to the progressivity of the tax system without a significant disincentive effect.

In a rural context, investigation should be made into a land tax, perhaps likened to a 'rural development tax', earmarked for development of small-scale farming and rural development. Such a tax could be levied on the value of agricultural land, and then be fully earmarked for agrarian reform. This would not only ensure that the required resources are made available, but would also mean that the proceeds would stay in the agricultural sector and help it to develop. Such an earmarked land tax would contribute to the perception of the tax system as fair.

TAX POLICY AND INVESTMENT

For our purposes tax policy may affect investment in two areas – domestic private investment and foreign investment. These will be discussed in turn.

Tax policy and domestic private investment

Tax policy may impact on domestic private investment in many direct and indirect ways. Space does not allow these to be discussed here. Instead I shall concentrate on some lessons to be drawn from recent international experience.

All industrial economies, many NICs and even some developing countries have in recent years introduced tax reforms which attempt to address various factors which might have an impact on investments. An important feature of most tax reforms of the 1980s was the reduction of rates on income taxes, both personal and corporate, thus aiming at increasing the investible surplus of private investors. This rests on the implicit assumption, of course, that the state will either invest that proportion of profits which is taxed less productively or will subject it to a higher propensity to consume.

In the case of a specific tax, it can be argued that there is a tendency for the economic cost of taxation to increase more than proportionately with the rate of taxation. The narrower the base, the higher the tax rate will have to be to generate a given amount of revenue. The higher, in turn, will be the economic cost associated with that rate. Theoretically, it can be argued that firms and households will shift resources from heavily taxed activities to lightly taxed ones. To the extent that this shift will result in a more inefficient allocation of resources, with possible harmful effects on the growth rate, it entails an economic (or efficiency) cost.

Tables 3.3 and 3.6 show that every OECD country has reduced the top or high rates since 1986. While these reforms may appear to have a positive effect on the disposable income of high-income earners available for saving or investment, they were often carried out under the constraint that they be revenue-neutral. In some cases this required offsetting the revenue loss (as a result of rate reductions) against the revenue gain from base-widening; in other cases the revenue loss from an overall reduction in the yield from one tax was offset by increasing the yield from another tax – for example, income tax losses were sometimes offset by the introduction of a VAT.

In many of the OECD countries the reduction of the top personal income-tax rates was partly offset by widening the base. In the case of personal income tax, it took on mostly two forms: either abolishing or limiting (usually by ceilings) tax reliefs for specific expenditures (e.g. home ownership and business expenses), or bringing in new forms of income into the tax base or widening the definition of such taxable income (e.g. fringe benefits and capital gains).

It seems as if the typical area for reduction or removal of tax expenditures (in the case of personal income tax) would be mortgage and other interest payments, welfare and fringe benefits, and social security contributions. Another recent technique to broaden the tax base is that of providing an alternative minimum tax (e.g. as a percentage of gross income – as in Canada and the United States) or a supplementary gross or nearer-to-gross income tax (Denmark and Norway). These taxes apply only to the highest-income

groups, who are thereby prevented, through the use of tax reliefs such as interest deductibility, from reducing their liability below a basic minimum.

It is difficult, however, to conclude whether personal income-tax reforms have increased the availability of investible funds (although some countries have experienced an increase in household savings). They have certainly not reduced it. Moreover, the overall economic climate may remain the most important determining factor.

Turning to corporate income tax, we have already noted the extensive rate-flattening which occurred during the late 1980s (Table 3.6). It has also been introduced in many developing countries (OECD, 1990b). This has been partly offset by a broadening of the tax base through a reduction or elimination of incentives and concessions.

Table 3.6. Changes in rate structure of corporate income tax of central government[a]

	Basic rate	
Country	1986	1990
Germany[b]	56	50
Greece	49	46
Italy[b]	36/10	36/10
Japan	43[c]	37.5[c]
Spain	35	35
Sweden[d]	52	30
Turkey	46	46
United Kingdom	35[c]	35[c]
United States[b]	15/18/30/40/46	15/25/34
Unweighted mean of all OECD	43	36
South Africa	50	50

Notes: [a]The table does not refer to the reduced rates for certain specified industries and qualified companies in a number of countries including Greece. [b]Countries with corporate taxes at subordinate levels of government. [c]There is a reduced rate of tax for small enterprises. [d]The rate for Sweden refers to 1991.
Source: Owens (1990).

Up to the mid-1980s, tax incentives were widely used to encourage investment. In some cases these incentives took the form of a general investment allowance or credit, and in others they were directed at specific assets, activities or regions.

Governments use explicit investment incentives in addition to those implicit in the tax treatment of depreciation, interest, and so forth. Special investment incentives include exemptions, tax allowances, tax credits, or special tax reliefs designed to assist particular groups or activities in specific industries or locations. These incentives serve either to reduce or to defer tax liability; the latter corresponds to an interest-free government loan over the deferment period. Tax incentives for special purposes, however, are often *ad hoc* and poorly integrated into the overall tax structure.

One effect of these measures was that investment in capital, particularly machinery and plant, was heavily subsidised. Many countries later came to take the view that these measures were not achieving the original objectives, but were merely distorting investment decisions. The experience in South Africa with investment incentives tends to correspond with these expectations. There has recently, therefore, been a move away from such incentives. Many developing countries, however, still retain extensive investment incentives, in spite of the uncertainty about their effectiveness.

In general, the effectiveness of a tax is inversely related to the number of goals it is meant to achieve. Tax incentives overload tax instruments with multiple objectives. They complicate compliance and prompt unproductive efforts to obtain their benefits. If the incentives are small, the economic gains are likely to be limited. If they are large, the erosion of the tax revenue base is likely to be significant.

The tax system is not the only, and by no means even the most important, factor in shaping the investment decisions of private investors. Many other considerations feature in the investment decisions of firms and individuals. The political, institutional, legal and macroeconomic environments and non-tax incentives all play a part in the decision to invest the surplus of a firm (or to borrow in order to invest). In short, the most important determining factor may well be the firm's expectations about the future.

Tax policy and direct foreign investment

International investment is highly mobile. In addition to government tax policies, there are many complex determinants of the flow of direct foreign investment. Non-tax economic considerations relating to the factors affecting the rate of return on capital investment undoubtedly play a major role. Non-economic factors, in particular the political and institutional environment in the host country, also weigh heavily in the decisions of the multinational firms on where to invest.

Tax incentives which were quite popular during the 1950s and 1960s have gradually lost their appeal, since the results were more modest than anticipated and since they tended to favour those with the highest ability to pay. Moreover, if the incentive mechanism is not believed to be sustainable, entrepreneurs could shy away from long-term commitments. It has been argued that, in any event, tax incentives tend to encourage short-term investment. A case can be made that the best environment for attracting foreign direct investment, given other prerequisites (non-tax factors), is not one of generous tax incentives but of relatively low tax rates for all business and a low government deficit, which would contribute to convincing prospective investors that the tax environment is indeed stable and durable.

In conclusion, it needs to be reiterated that the foreign investor is likely to take account of non-tax factors that have to be complementary to a favourable

tax environment. These would include political stability; the existing institutional and regulatory framework, including protection of and restrictions on foreign investment; access to international as well as domestic credit; labour market provisions and practices; and macro-policies that include stabilising influences such as an overall policy environment that tends to reduce capital flight, currency substitution and the like.

CONCLUSION

We have explored a wide range of issues which need to be considered in developing an appropriate tax policy for a democratic South Africa. It now remains, in conclusion, to draw all of this together.

A viable and sustainable programme of redistribution is only possible if the expenditure side of the budget is used primarily to effect this, thus leaving to the tax side the task of raising as much revenue as possible, subject to the constraints of stability and growth. In designing an appropriate tax system it is necessary to consider the perceived fairness of each tax and the tax structure as a whole, in the context of the need to ensure efficiency.

South Africa is probably already approaching the maximum overall tax level which the economy can bear, given the present level of development and growth rate. Therefore total tax revenue as a proportion of GDP can only increase at a moderate annual rate, perhaps at about 0,5 per cent, and probably at a maximum of 1 per cent, of GDP per annum, provided the economy is growing.

This notion is supported by the fact that much of government expenditure which is not merely consumptive will only lead to increased productivity over a relatively long period of time, particularly in South Africa where 'social investment' has been so inadequate and wasteful in the past. Care must consequently be taken not to allow taxes to increase at a rate faster than that which the economy can bear.

A balanced tax system consisting of a whole range of direct and indirect taxes is better than a tax system which attempts maximum progressivity for its own sake. This also requires that top tax rates should not be too high and that we should not ignore the significant international trend towards a more balanced tax structure. This includes the broadening of the tax base by removing exemptions and deductions which often serve as avoidance loopholes.

The wealthy often receive income in the form of a capital gain. Equity demands that these accretions to the taxpayer's economic power also be taxed with a capital gains tax. This will also add to the perception of the tax system as fair.

There is a case to be made for the introduction of a minimum tax on businesses to compensate for the very low effective income-tax rate found in practice. One possible base for such a tax is value added in the business. A very low tax rate will raise considerable revenue because of the huge base. Being a minimum tax, it only provides a threshold below which income tax cannot fall. It thus falls away as income tax exceeds the threshold.

The case for a wealth tax is not clear and unambiguous. Until this has been studied more fully, the taxation of capital should be done through the comprehensive taxation of gifts and inheritances rather than through an annual wealth tax in the form of a capital transfer tax. A national property tax, imposed nationally (or regionally) and on an indexed and regularly revalued fixed property, on which a local premium could be piggy-backed, and earmarked for grants to local authorities according to a set formula, should be investigated. A case can be made for such a tax to be progressive.

It is suggested that in the context of rural property a land tax, or 'rural development tax', earmarked for the development of small-scale farming and rural development, should also be considered. Such a tax could be levied on the value of agricultural land, and then be fully earmarked for agrarian reform.

It is now widely agreed that tax incentives do not achieve the original objectives. In general, the effectiveness of a tax is inversely related to the number of goals it is meant to achieve. Tax incentives overload tax instruments with multiple objectives. The desirability of removing all incentives to investors warrants further investigation. This also applies in the case of foreign direct investment.

A case can be made that the best environment for attracting foreign direct investment, given other prerequisites, is not one of generous tax incentives but of relatively low tax rates for all business and a relatively low government deficit, which would contribute towards convincing prospective investors that the tax environment is indeed stable and durable. The foreign investor is likely to take account of non-tax factors that have to be complementary to a favourable tax environment. These would include political stability, the legal and institutional framework, and macroeconomic policies.

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LAND TENURE:
A TIME BOMB
TICKING IN SOUTH AFRICA

Godfrey Dunkley

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A TIME BOMB TICKING IN SOUTH AFRICA

Paper presented at the
19th International Conference of the
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at which the theme was
"The Resolution of Territorial Conflicts"

Prof. Mason Gaffney
We really look forward to
your coming to South Africa.
Kindest Regards
Godfrey & Yvonne Dunkley
22/1/1992

LAND TENURE:
A TIMEBOMB TICKING IN SOUTH AFRICA

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LAND TENURE: A TIME BOMB TICKING IN SOUTH AFRICA

CONTENTS

1. Background	1
2. Present Scenario (1991)"	3
3. Defusing the Time Bomb"	6
4. The New Economic Model"	8
Diagram 1"	9
Diagram 2"	11
Diagram 3"	13
5. Magnitude of Annual Rent"	13
6. The Increased Source of Revenue"	16
7. Value Added Statements"	17
8. Method of Collecting Revenue"	18
9. Distribution of Rent Revenue"	21
10. Incentives"	23
11. Ecology and Heritage"	24
12. Conclusion "	24

LAND TENURE: A TIME BOMB TICKING IN SOUTH AFRICA

(The concept of rent on land only, excluding)
(any buildings or improvements there-on, is)
(designated throughout by the expression 'Rent'.)

1. BACKGROUND

Many parts of South Africa are on the razor's edge between peace and spontaneous violence. This is particularly so in many of the black townships and squatters' camps. At first these camps sprang up near large cities but in recent years they have become a familiar sight near small towns and even in the centre of holiday resorts - anywhere that vacant land is available, even if it is prime land. Squatter's camps are only a portion of the total informal settlers problem which includes backyard rooms and garages.

The struggle for access to land, land tenure and land ownership have formed the fulcrum of the power game ever since the first settlers arrived at the Cape of Good Hope in 1652 when the Dutch East India Company asserted its right to the land.

Under Jan van Riebeeck the settlers had only tentative rights to land at the discretion of the Governor for which they paid a land tax or quitrent, according to the agricultural quality, for a fifteen year term, later converted to perpetual quitrent.

Prior to white rule the indigenous black people had a limited degree of stability. The strongest tribes took what they wanted and the others were forced to accept what was left. Many lived in constant fear of attack by stronger tribes.

From the earliest days, white settlers desired land for their own exclusive use and negotiated, bartered and fought for land. Land changed hands and white rule extended in stages over the whole of South Africa, much of it previously unoccupied.

The Boer or Dutch farmers felt insecure under British rule, which had taken over in 1806. They gradually moved further away from authority, mainly into the eastern Cape. In 1820, five thousand British settlers arrived in Algoa Bay where they had been promised land and cheap labour, a political move designed to increase British rule over both the Boer and the blacks in a troubled area. Eventually, from about 1836, the Boers decided to trek away from British rule. During the Great Trek, the Boers rapidly defeated or displaced the various black tribes and settled as farmers well away from British rule, but the British continued to extended their colonization as diamonds and gold were discovered.

The incompatibility between Boer Republic rule and the requirements of the prospectors and miners eventually led to British intervention, culminating in the Anglo-Boer War and the expansion of British rule, which covered the four provinces of South Africa by 1902. In 1910 these four provinces were united under one central government and given independence as the Union of South Africa, a member of the British Empire. In 1961 these ties were cut with the formation of the Republic of South Africa.

Ever since the first white settlement there have been many laws, acts and decrees made by various governments which have gradually eroded the rights of blacks and given increasing ownership to whites. Many of the acts have been promulgated to allay the fears of the whites who are significantly outnumbered by blacks, but others have been a blatant miscarriage of justice motivated by greed and subjecting blacks to poverty. The process was intensified under the apartheid system, now being abandoned.

Apartheid goes back to long before the Nationalist government came to power or the coining of the word 'apartheid' for electioneering purposes and the codifying of laws to enforce what already partly existed. Abandoning statutory apartheid will not, of itself, bring about a more equitable distribution of wealth and opportunity.

The Native Land Act of 1913, for instance, allocated a small part of South Africa as black territory and prohibited black ownership in the remaining areas. Only 10,4 million morgen were available, mainly in reserves and locations. More land was intended but was made available only in 1936 when an additional 7,2 million morgen was added, bringing the total to 13% of South Africa's land area. Most of this was tribal land where blacks could not have private ownership. Even where they had registered ownership in white areas, or tradi-

tional rights on white farms as tenant farmers or share croppers, they were eventually forced off the land.

Mechanization, drought and economic conditions have also displaced many blacks from white agricultural areas. Unlike most other countries South Africa has virtually no black tenant farmers in the traditionally white areas. Therefore, land reform could be far more complex than it was in Taiwan where land reform was the start of phenomenal economic growth.

*****

2. PRESENT SCENARIO (1991)

The Republic of South Africa has a population of 30 million (1989) of which only 5 million are whites, 3 million coloureds and 1 million Asiatics. There are a further 6,5 million blacks in the self governing states which once were part of the Republic of South Africa. Whites represent only 13,8% of the total. The Zulus make up the largest single tribal language group at over 6 million. Estimates of population growth to the year 2000 vary from 36 million given by the Human Sciences Research Council to 48 million calculated by the Urban Foundation.

A major problem in the 1990s is rapid urbanization now taking place. Changing conditions have resulted in a rapid increase in unemployment at the margin of production and in the number of unemployed marginal labourers, many of whom have been replaced by machines and are not re-employable. Together with the withdrawal of pass laws, this has resulted in a flood of unskilled labour to the urban areas in the hope of improving their life style. The acute shortage of housing and employment results in the majority moving into or establishing squatters' camps.

Some squatters are formally employed and squat only because there is a limited amount of affordable accommodation close enough to their place of employment. The majority of squatters are the product of the former political and existing economic system, not only in South Africa but also adjacent territories.

Estimates for "informal" housing vary significantly but the Urban Foundation gives the figure for 1987 as between 4,8 and 5,6 million living in shacks. The present number is approximately 7 million and could double in five years.

New townships with minimum services are constantly being established to allow people to move from squatters' camps to more

permanent positions. Building regulations are being relaxed to allow temporary shelters and gradual upgrading.

Finding suitable land at affordable prices is an ongoing problem for government and local authorities and the townships become progressively further away from formal employment. "Leap-frog" or "ribbon" development is aggravated by land speculation. Land is at the hub of the problem, part of the nucleus of the time bomb.

Although "white" housing is generally of a high standard and cheap by world standards, there is a shortage of affordable accommodation at the lower end of the scale. This applies to all race groups but the shortage increases for coloured and Indian housing and is chronic in black areas. The shortage is greater than the total number of existing houses and by 2000 is estimated to increase to 62% of total requirements.

Estimates given by the S.A. Reserve Bank show that 4,6 million housing units need to be constructed by year 2000. At 1986 costs, 400 000 units per year would cost R6,9 billion per year which equals 24% of Gross Domestic Fixed Investment for 1986. This would require a real annual growth rate of 17% to make possible the elimination of the backlog by 2000 compared with a growth rate of 3% at the time of the survey. (These estimates do not consider the possible effects of AIDS.)

The Independent Development Trust, Housing Project, has been set up to assist those who are unable to afford the cheapest of formal housing, conservatively estimated as over 60% of the total black population.

Unemployment has been increasing rapidly over the last few years, compounded by sanctions and the increasing lack of access to land which has prevented many from supporting themselves. The writer will argue that taxation has also been a contributing cause.

Registered unemployment figures are unreliable because of large numbers of migrant workers and squatters in many municipal areas who never register as unemployed. Semi-employed and casual labour cause a further problem regarding reliability of statistics.

The Central Statistic Services give the total 1989 figure as approximately 900 000. If those trying to make a living in the informal sector are included the number of black unemployed would be 2,5 to 3,0 million.

The resulting pressure of increasing numbers of unemployed and badly housed people in the developed areas has brought a new wave of economic and social problems. Dignity and reason are rapidly destroyed. Men women and children become easy prey to the ideas of agitators and desperation can lead to crime, both being a threat to the established community.

The lack of education and training presents a problem in finding employment. Black education has been severely handicapped by the early policies of apartheid and more recently by social unrest and a senseless call by agitators for "liberation before education". School boycotts, burning of books and schools, attacks on children attending school and attacks on teachers have all added to the abysmal failure rate at matriculation level and nearly a generation of under educated youngsters, some 30% being functionally illiterate. An acute shortage of qualified teachers will make it almost impossible to correct the problem within the foreseeable future.

Anger at the regime, brought about by the suppression of the ANC and other black political organizations, together with reaction to poor housing and black education, has been compounded by the present power struggle between the various black organizations and has resulted in violence and destruction. This has been mainly in the black townships and squatters' camps but there has also been an alarming spread of crime, including bank or payroll holdups, to white townships and central business districts.

With the lifting of restrictions since 2nd February 1990 there has been a change in the pattern of violence and faction fighting between tribes has escalated almost to the proportion of full scale war, with the police force caught in the middle.

In spite of good intentions, the supporters of sanctions in the western world have brought hardship to millions of black people by causing a downturn in the economy. Whilst sanctions have helped to expedite reform, it is now necessary to restore the damage if this is still possible.

*****

However, there is one aspect where the writer believes that South Africa is far ahead of the rest of the world, with few if any exceptions, and that is in the sphere of municipal rating.

In the last forty years there has been a pronounced swing away from rating improvements and to-day more than 70% of all rates are collected in cities which are on site value rating. Only two cities are

still on flat or total value rating and there is a strong move in one of them, Cape Town, to change the system and eventually to rate land at ten times the rate on improvements. Port Elizabeth will then be the only remaining city on flat rating.

Two studies carried out by the writer over ten year periods and using figures from the Municipal Yearbook, various years, showed that the group of cities collecting rates from land value only, experienced nearly twice the average growth compared to those rating the total value of land and improvements.* Numerous examples from overseas confirm this trend of better growth where buildings are given tax relief.1

In fact, the proposed new model for the country is little more than an extension of this municipal experience, to cover the nation as a whole, namely to untax buildings, untax the products of labour and untax the return on capital. Instead, all revenue would be collected from an annual Rent of land.

3. DEFUSING THE TIME-BOMB

Rapid changes are taking place in South Africa. On 2nd February 1990 President F.W.de Klerk announced the unbanning of exiled organizations and the release of many political prisoners. On 1st February 1991 at the opening of parliament, President F.W. de Klerk stated that the remaining apartheid regulations, including the Group Areas Act and the Land Act, would soon be repealed. In fact, the last of the apartheid acts were repealed on the 17th June 1991 and steps are being taken to draw up a new constitution and a bill of rights. This should go a long way to resolving the political problem but will not solve the problem of unemployment and squatters. It will still not give the masses economic access to land or land tenure. A further step is essential which government and the black leaders have still to come to terms with and no one is as yet discussing a workable alternative to nationalization.

Land tenure is at the core of the time-bomb in South Africa. This applies to all land, but the fuse lies in the farming land. The farmers are determined to hold onto their land whilst the ANC has stated that

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1 See Dunkley, G R A, *"That All May Live"*, A Whyte Publishing, Chapter 14.

Apparently added after March '91 supposed pub. date

land must be made available to all people particularly for farming and housing. Although restrictive legislation has now been withdrawn, few blacks can afford land at present market prices.

Purchasing or confiscating large farms for the purpose of re-settling a larger number of black farmers would do little if anything for the masses and, from the lessons of Africa, could reduce total production.

Ways must be found to compensate those who until now have been deprived of access to land, a suitable education, training and employment opportunity. This will not be accomplished by nationalization of property and industry nor by the re- distribution of existing wealth. Many experts believe that there can never be a lasting solution because of the increasing number of people and natural limits to economic growth.

It is neither land nor existing wealth that must be distributed but the opportunity for all to compete on an equal footing. The writer will argue that this can only be done by removing many of the existing taxes and collecting the equivalent revenue from the Rent of land or a user charge. This would appear to be the only way of ensuring that land is put to its best use and this concept will be developed in the economic model.

Fear and self-interest have had a great influence in the past and will continue to do so in the future. Whites fear being overrun by and losing property and jobs to the numerically superior blacks. Blacks fear being unfairly treated by capitalism and vested interest. Many of the fears on both sides relate to land ownership or lack of access to land. Without justice there must always be an underdog, a role which nobody wants to fill.

The alienation of black land in earlier times has been the South African equivalent of the Land Enclosure Acts in England. These Enclosure Acts, whilst assisting the industrial revolution, were also one of the direct causes of abject poverty and child labour which was prevalent in Britain at the time Karl Marx wrote the Communist Manifesto. In South Africa it has resulted in a lot of sympathy for communism.

Can there really be a solution in South Africa? Is there a way to distribute opportunity without disrupting the economy or nationalizing land and industry? Is there still validity in the ideas of Adam Smith, David Ricardo and Henry George who all discouraged taxes on the products of labour and the return on capital but advo-

cated collecting the Rent of all land for public revenue? The argument for the New Economic Model given below strongly suggests that this may be so.

* * * * *

4. THE NEW ECONOMIC MODEL

The proposed economic model envisages the devolution of power from central government to regional government in the form of a type of canton system with central government retaining only such essential powers as defense, law and order and justice. Other services such as planning of national roads are perhaps also better under central government.

The model further requires a change in the tax system so that it becomes closely linked to the advantages which individuals derive from land tenure. When a user charge is paid or the Rent on all prime land is collected for the community, represented by different levels of government, then land is more likely to be put to full productive use. This will also encourage the distribution of both land ownership and the opportunity to produce wealth.

The country should be divided into a larger number of provinces, regions or cantons, the latter term being used in this chapter. The area would include the present independent national states and, at a later stage, any bordering states which cared to join the system.

The actual number of cantons is not significant to this discussion, but it is important to realize that some cantons will occupy predominantly prime land and others predominantly marginal land. Under the present system of government and taxation the marginal areas are rapidly becoming depopulated and it is essential that the new system should reverse this situation by providing better conditions at the margin, which is normally though not always, in rural areas.

The ratio of white to black population in any various cantons ought not have any significant effect on the economic model. Each canton would be autonomous except for a limited number of national issues such as defence, national roads and the collection and distribution of revenue.

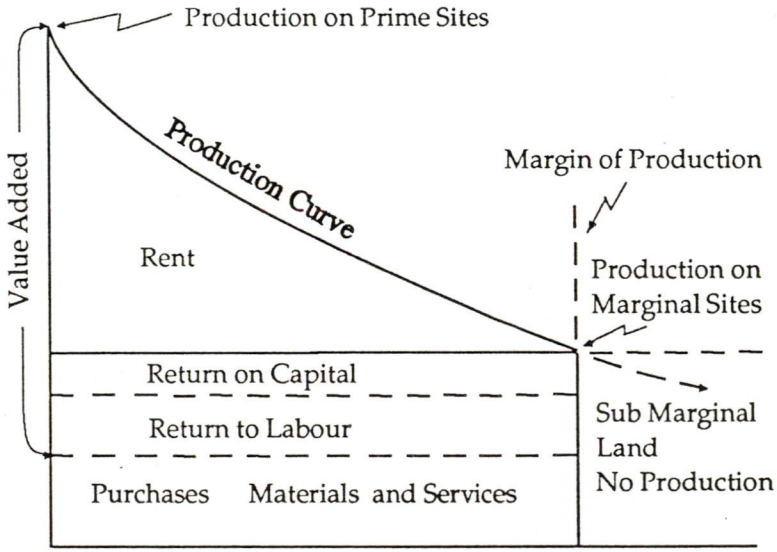
In addition the new model must provide a solution to the main clash looming over land to prevent this from becoming a "winner take all" situation. Security of tenure must be guaranteed to those who put good land to full productive use and pay the annual Rent. Those

unable to pay the market determined Rent should be encouraged to relinquish title and move to land where the Rent is lower or non-existent, making way for others to put the land to better use.

The writer's concept of Rent and the effect of taxation on the total amount of wealth created within a country is indicated by the diagrams which follow.

*****

Wealth is produced by the application of labour and capital to or on land which, includes raw materials. For the same application of labour and capital some sites will produce a lot more than others, depending on both natural and community given advantages. Diagram 1 shows graphically the relative production extending from prime sites on the left to sub-marginal sites on the right. Beyond the margin of production there cannot be continuous economic production under the present system of taxation. When the return to labour and the return to capital have been subtracted from the value added then the remainder is Rent which will now be considered in greater detail.



Production Curve and Rent

Diagram 1.

Gives too much causative primacy to "the margin."

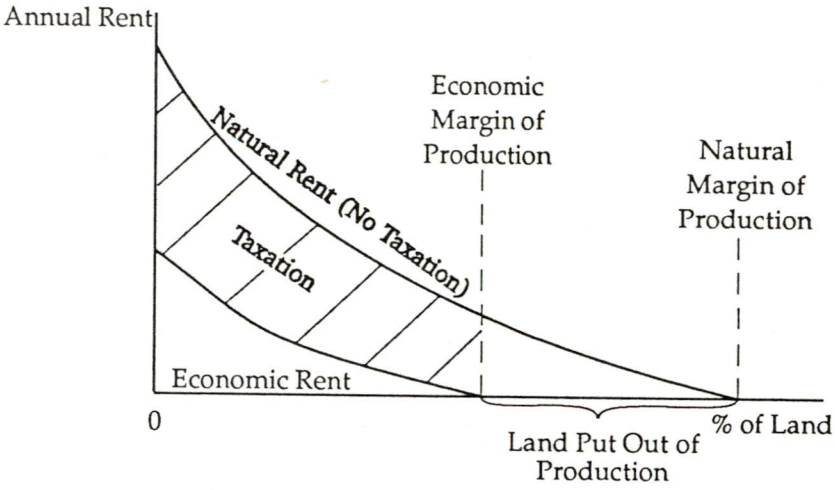
Whilst both wages and interest will vary according to a number of factors and from place to place or time to time, they are still influenced to a large extent by conditions at the margin of production. Lack of demand because of poor conditions at the margin will tend to reduce either wages or interest, or both.

Many of the present taxes have a negative effect which extends beyond the obvious. It can be argued that most taxes are paid by the employer and that income tax (or PAYE) and value added tax are taxes on employment. Before the change from general sales tax (GST), at 13% on most items except certain food, to value added tax (VAT), at 12% on almost all items, the trades unions were asking for 5% increase in wages to cover the extra cost. It was subsequently decided to introduce VAT at 10% and to increase the tax on petrol and diesel fuel, which will still have a bad effect on food prices. Antagonism runs high!

In Diagram 1 it can be seen that, in the absence of any taxes at the margin of production, the viable economic curve will end at the margin as shown. Any tax at this point will put marginal operations out of production. If wages constitute 50% of the cost of production and a 10% tax is levied on everything purchased by labour, this will be shifted to the employer as an extra 10% on wages or 5% on the total cost of production. Any operation near the margin which would have made a profit of less than 5% before taxation will be forced out of business unless the additional cost can be shifted to the consumer. The margin of production will move significantly to the left as shown in Diagram 2. There will be unemployment to the right of the new margin of production!

Many other taxes have the same effect as GST or VAT at the margin. Income tax and pay as you earn (PAYE) are not normally paid by the lower levels of labour so would have less impact on the employment of unskilled labour than VAT. However marginal industry employing skilled labour will have to absorb these taxes which are ostensibly paid by the workers but shifted to the employer. Again the margin will move to the left and there will be an increase in unemployment.

Any increase in the cost of purchases, that is both materials and services, will raise the level of the Rent base line AB in Diagram 1. As an example, if VAT is paid on electricity, water, telephone account or even transport, then the Rent base line will be raised, ie. Rent will be reduced on all land including near the margin. An increase in the price of petrol will have the same effect.



Natural and Economic Rent

Diagram 2.

Since salaries and wages account for approximately 50% of the cost at each level of production, if compounded over only three levels of production, wages would make up 87,5% of the material cost at the subsequent level of production. As labour, at all levels, will be paying VAT at 10% on most of their purchases, the cost of materials purchased at this level of production will already include VAT at 10% of 87,5% = 8,75% of total cost, even before the direct application of VAT.

VAT on VAT on VAT! Where does it end?

* * * * *

All increases in the cost of materials and services, brought about by taxes at any level, together with increases in wages or interest as a result of taxes, will have the effect of raising the level of the Rent base line AB in Diagram 1. The effect will be similar to lowering the Rent curve in Diagram 2. Does this not give the impression that taxes come out of Rent? If so, are not taxes responsible for shifting the margin of production to the left in Diagram 2 and thereby increasing unemployment?

The writer firmly believes that it is essential to evaluate all taxes according to the effect that they have at the margin of production rather than their effect on prime land. Any taxes which do not reduce to zero at the margin must surely have a negative effect on gross national product and unemployment. This is also affirmed by Ricardo who stated; "Any tax which may be imposed on the cultivator, whether in the shape of a land-tax, tithes, or a tax on the produce when obtained, will increase the cost of production, and will therefore raise the price of raw produce."2

There are some present taxes which have little if any adverse effect on production at the margin as they do not reduce Rent to zero or a negative amount. Company tax in this respect is a good tax in that a company which makes minimal profit pays minimal tax and can usually carry tax losses over to offset profits in a good year.

Municipal rates on site value only are also neutral as they should relate directly to the community given advantages derived from the use of specific sites and determined by land value in a free market. Marginal sites would have little value if it were not for the speculative value.

From the above discussion it would seem reasonable to argue that ultimately most if not all taxes within the productive economy can be considered to come out of the natural Rent. If that is indeed so then removing all existing taxes should restore the total national Rent to that shown in Diagram 1. At the same time the land put out of production in Diagram 2 would gradually be restored to production and unemployed labour re-employed. The margin of production would be restored to the position shown in Diagram 1.

Both central and local government do require revenue for basic services which has to be found somewhere. What would be the effect of collecting this revenue as a percentage of Rent? Would this have an adverse effect on production and employment?

Diagram 3 shows the effect of collecting 80% of the Rent, all the way from prime to marginal sites. At the margin, since the Rent, by definition, is zero, so is the tax or revenue collected. Near the margin, that land which has been restored to production by the removal of

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2 David Ricardo; *The Principles of Political Economy and Taxation*, page 98.

present day taxes, such as VAT and PAYE, will still be left with 20% of the Rent and will continue to be viable.

Land beyond the margin will have no commercial value from a production point of view; people who care to live there would pay no taxes of any sort and pensioners would still be able to augment their income without incurring taxation. A variety of institutions would be encouraged to use marginal land where the cost of living would be relatively low and the growth of supporting services and infrastructure would encourage others to those areas.

Everyone who pays Rent for the use of land must be guaranteed protection of tenure by the society which enjoys the Rent.

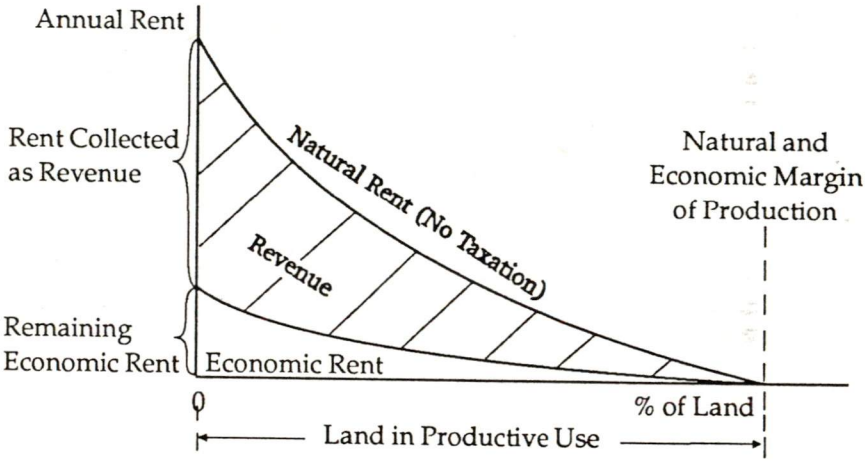


Diagram 3.

5.MAGNITUDE OF ANNUAL RENT

There has been much discussion about the ability of land Rent alone to meet the fiscal requirements of central government in addition to that already being collected by local government in the form of rates. A study carried out by Prof. Steven Cord in USA and recorded in 'Incentive Taxation' May - June 1982, gave the annual Rent in USA in 1981 as $1020 billion. He stated that this amount would have been greater than all the taxes for that year.

A.R.Hutchinson in an essay titled "Land Rent as Public Revenue in Australia", published by the Economic and Social Science Research Association, UK, (page 36) gave figures for Australia: "Adding to the $6,600 million already collected (from Rent) as public revenue the estimated $5,283 millions remaining in private hands, the potential land revenue yield under the conditions applicable for the year 1976/77 would have been $11,883 millions for Australia as a whole. (Out of the total receipts of $28,745 millions for the Federal, State and Local Governments combined.)" This study does not take into account the add-back factor of present taxes which would be removed in stages as increasing portions of land Rent are collected as revenue.

There are no figures available in South Africa to give the national value of Rent but the order of magnitude has been established as follows:

From the 1989 South African Municipal Yearbook the 1987 valuation of land in municipal areas is found to total over R36,000 million. Of that figure, 70% is in towns which are on site value rating where the valuation rolls would reflect values on average 50% of market values. A further 10% on flat rating have rolls which only reflect 20% of market value (19.6% for Cape Town) and the remaining 20%, which are on composite rating, have valuations of about 40% of actual market value. These figures give a present market value of approximately R86,400 million. Current bond rates are approximately 20%, which means that if all this land were bonded the total annual interest paid would be approximately R17,280m. This is an indication of the annual amount which the land owners are prepared to pay for land tenure as determined in the present market; willing buyers and willing sellers. This in turn is an indication of the present land Rent.

Agriculture and forestry now exploit approximately 86 million hectares of land. Average annual rental values for land only were given in a survey by Symond Fiske in 1982 as follows:

Irrigation land	R40 to R600	Average R200
Dryland	R 8 to R160	" R 56
Grazing	R 4 to R 35	" R 15

Applying these figures to land areas taken from the 1982 Official Yearbook, (page 592) the following rental values are obtained:

Irrigation land	900 000ha. at R200	= R180 million
Dryland	14 179 000 " "	R56 = R794 "

Grazing, poor	38 300 000 " "	R4	= R153 "
" medium	29 900 000 " "	R15	= R448 "
" good	15 000 000 " "	R35	= R525 "

R2,100 million

Projecting this to 1987 at an average inflation rate of 15% gives the annual Rent as R4,591 million for farming land excluding forestry. Add to this the R17,280 million for urban land gives R21,871 million which excludes mining and fishing. This represents 64% of the total revenue of R34,136 million for 1986/87.

As a cross check for the extension of farming land from 1982 to 1987 it can be taken as a percentage of the 1982 revenue income of R14,416 million and then take that percentage of the 1987 revenue of R34,136 million, giving R4,972 million which is in excess of the figure used.

In Diagram 2 the area under the simple curve marked Economic Rent represents the R21,871 million referred to above. This is the value of Rent which remains after all present taxes have been collected. When these taxes are added back in, then the area under the curve called Natural Rent represents the total national Rent under the present imperfect conditions. A nominal value, purely for the purpose of discussion, is:

Estimated Economic Rent	R21 871 million
Total Revenue	R34 136 "
Natural Rent	R56 007 "

If only 80% of this natural Rent was collected that would represent R56,007 million x 80% = R44,806 million. This exceeds the 1987 revenue by R10,670 million. Even if only 70% of the Rent were collected, ie. R39,205 million, this would still have made it possible to eliminate all existing taxes for that year.

The effect of municipal rating on annual Rent has not been taken into the calculations nor has municipal revenue. The two would tend to cancel out when Rent is collected as revenue.

The remaining Economic Rent for 1987 would have been:

Natural Rent	R56 007 million
Less revenue (80%)	R44 806 "
Economic Rent	R11 201 "

The Economic Rent curve in Diagram 2 would be slightly flattened, reducing the amount of Rent remaining on prime land and increasing it near the margin. This line can now be extended beyond the present margin and would only cross the base line at the natural margin, as shown in Diagram 3. A large amount of presently unproductive land could be brought back into production to provide a living for many now in squatters' camps.

NOTE: There has been a tendency to talk of a land value tax (LVT) as the method of collecting the rent but this is rather misleading. Whilst under given conditions the rental value will remain relatively stable irrespective of the amount collected, land prices will vary considerably. Land prices will relate to the uncollected portion of the annual Rent - in the above case 20%.

6. THE INCREASED SOURCE OF REVENUE

Within the present area of production bounded by the Economic Margin of Production as shown in Diagram 2, there is at present a large quantity of potentially productive land which is withheld from production by speculation or under-utilization. Collecting a large portion of the annual Rent will put significant pressure on the owners either to put the land to full economic use or sell at a reduced and more realistic price. As the price of prime land reduces so will the tendency to move to better land increase. Gradually the gaps in better land will be filled and larger quantities of less productive land will become available to those with less capital and productive experience. Thus land will soon come into full productive use and contribute towards a growing economy.

Again, as more desirable land becomes available and competent people on less productive land tend to upgrade, the chain reaction will make marginal land freely available for resettlement. Land will become available to the landless, and, with the absence of harmful taxes such as VAT and PAYE, the growth of self-supporting villages and towns will become more feasible. Were not the "platteland" or rural towns economically viable some twenty years ago? Did not the move to squatters' camps accelerate at about the time that GST was first introduced? Could there be a connection? After all, the British introduced the poll tax in southern Africa because labour was needed in industry and mining. Both taxes have an impact at the margin of production.

In time the economic margin of production shown in Diagram 2 will move outwards until it coincides with the natural margin. This is shown in Diagram 3 which shows clearly the expansion of the economy and of the Rent available for collection. The amount could be quite significant.

In time the total economy will expand significantly and the natural Rent line will be raised above that shown in Diagram 3, extending further into what is at present sub-marginal land. Will this not create more employment than the present system where both labour and land lie idle?

7. VALUE ADDED STATEMENTS

Little has been said world wide about the importance of value added financial statements instead of the present format of annual reports. Value added statements should become an essential part of the conversion from present taxes to the collection of land Rent or user charge.

In the present system various aspects of taxation are hidden in different items of expenditure in such a manner that it is not possible to obtain a true reflection of the value added by the economic venture.

General Sales Tax (GST) or VAT can be hidden in a number of different items, namely;

1. All capital items subject to GST, at present 13%, require 13% more loan financing at 20% per annum. This additional amount should be grouped under taxes until the final amount is paid off.

2. All wages are inflated by more than half of the present 13% GST so that employees can live at the same standard as they would if there were no GST. Trades unions were already demanding an increase in wages of 5% to compensate for the then pending change from GST to 12% VAT as this would have include food formerly exempt. The GST or VAT portion of salaries and wages should be grouped under taxes in the company's books.

3. The cost of all purchases even before GST is added will be inflated by a significant portion of the GST or VAT content of wages right through from raw material to finished article. (As explained in section 4 above.) This cannot be shown in the company's accounts as tax but could be shown at all previous levels of manufacture.

We would argue that Pay As You Earn (PAYE) and individual income tax, although ostensibly paid by the employee, are additional charges on the employer and should be grouped together under

taxes, not under wages. If the employee was not called upon to pay these taxes he would work for that much less as it is "take home" pay that he is interested in. This is more clearly seen when these tax rates are increased and employees demand more money to cover the additional cost.

Property rates and taxes should also be grouped under taxes. Even if the property is rented at an inclusive amount the rates section should be shown under taxes and not under rental. Licences, stamp duty and transfer fees are amongst other costs that should also appear under taxes.

Services such as electricity, water and communications are input costs along with materials purchased and do not form part of the value added. However, any taxes which increase their cost to the manufacturer or producer, will either increase the selling price to the consumer or decrease the Rent on land. Wages and interest on money borrowed along with taxes are part of the value added by the company's operation.

The value added less wages and interest gives a fair measure of the Rent relating to the land occupied. Naturally entrepreneurial skill will have a significant bearing on the total production.

8.METHOD OF COLLECTION

The first step would be to establish realistic land values under present conditions of taxation. The accuracy of these values would be more important on prime land than on marginal land. In the Transvaal updated municipal valuation rolls would be suitable in the first instance. This would not apply in the Cape which operates under a different Ordinance. At present the Cape Town valuations vary from about 5% to 60% of market values on individual properties and from 9% to 35% for complete wards. The average is only 19,6%, calculated from valuation roll figures compared to actual sales. These figures would not be acceptable as the Rent basis and it could even be better to allow individual assessment by owners provided all figures were made public and readily available for scrutiny by all interested parties.

Using sample sales and deducting improvement values on a replacement cost less depreciation basis, land values can be obtained which can be spread within similar areas by allowing for individual factors which may affect market price.

In business areas where buildings are demolished, accurate land prices can be obtained from total property price plus cost of demolition. These values can be used as a yardstick to test the accuracy of other values.

Land banks have little trouble determining farming land values according to type of land, weather conditions and distance from relative markets. Farmers could establish their own values at a price at which they would be prepared to sell some or all of their land excluding improvements and buildings. Given an opportunity to compare their values with adjoining values they will soon reach realistic values.

Historically, land values were set at twenty years rent on land only. That was when interest was still approximately 5% per annum. High interest rates and inflation have changed the rate of capitalization but when the two are offset against each other the effective interest is still near 5%. This complicates the accurate assessment of values but the market still has the ability to come up with workable values.

The amount of Rent collected will not be in direct proportion to the percentage of land value collected as the market value will reduce as the percentage goes up. The actual amount collected by any formula would vary according to the prevailing interest rates and rate of inflation. It would also depend on the type and rate at which other taxes are reduced or removed.

There are different effective ways of going about the assessment and collection of land Rent instead of taxes, the following being only one of the possibilities. First reduce the General Sales Tax or VAT by half and introduce a land value tax geared at a level estimated to make up the loss; (approximately 2,5% of market value). In the second year remove VAT entirely and increase the land tax accordingly; (approximately 5% of original land value) Land values will start to fall as the tax increases.

It will then become necessary to change from a percentage of land value to a percentage of annual Rent. By the time half of the Rent is being collected the land values will also have halved, not allowing for natural increases as the economy starts to pick up. At this stage the Rent collected would be equal to, say, 10% of the new deflated land value or, put the other way round, the land value will be ten years' Rent. Thus, in the third year the Rent should be set at 10% of the new market value. As other taxes are progressively removed the Rent collected should be increased as a percentage of the reducing

land market value by relating this latter to the number of years Rent, reducing in time progressively from ten years to two years.

At this point, with all other taxes removed, the amount collected should be approximately 80 % of the total Rent. The amount collected should be in excess of the existing budget, apart from the natural increase due to expanding population and a rapidly growing economy. Even if AIDS prevents a growth in population, or results in a decrease, the more efficient use of both land and labour will still give results better than under the present system.

When the market value equals two years Rent and the return to the community is approximately 80% of the country's total natural Rent, the remaining 20% would still provide a large incentive for the most competent entrepreneurs to occupy the best prime land. Even if the total rent was collected by the various levels of government, the most efficient producers of wealth would still gravitate to the best land as they would receive their highest rewards for skill and hard work in these areas.

Many Georgists and Geocrats3 are adamant that the total Rent should be collected; but leaving 20% would allow the market forces to operate in determining Rental values better than officials could do. Fine tuning could be done later when experience has been gained in how the market works under these new conditions.

Many of the less efficient people would be able to make a reasonable living on marginal land or in marginal towns and villages where they would pay little if any tax. There would be a natural movement of pensioners, handicapped and less productive people towards these areas where the cost of living would be very low. Many schools, colleges, hospitals and rehabilitation centres would also be better situated away from prime land.

Were this system to be introduced, there would be little need for the government to impose restrictions on the movement of people or to provide subsidies to encourage business and industry to decentralize. Squatting would be reduced, if not eliminated.

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3 Geocrat: One who studies the science of the use of the earth in ways best suited to meet the needs of society, hence a study of land and natural resources for the benefit of all people.

Naturally, this would cause other problems relating to recent purchases and existing bonds which would have to be cleared. However, set against increasing land rental values arising from the economic growth of the country, very soon existing debts would pale into insignificance. In some cases it may be necessary to relieve temporary hardship which individual circumstances may cause during the transition period. As an interim measure it might be necessary to offset loan repayments on land only against a portion of the Rent due. A slight drop in prime interest rates would also assist with a smooth transition.

9. DISTRIBUTION OF RENT REVENUE

If the revenue collected increased to, say, 80% of the annual Rental value of all land throughout the country this total budget could then be distributed in such a manner that it would meet the total revenue needs of the entire population. For the purpose of this discussion only approximate values are given. The final distribution would form part of the total package to be negotiated for both the political and economic settlement. This would have to be reviewed on an annual basis during the first few years.

The suggested distribution is as follows:-

1. Central Government - to cover security of the country by means of armed forces, law and order in the form of police and law courts, plus minimal central government legislation and foreign affairs, etc., also major roads, railways, harbours and international airports:- 33,3%
2. Canton and municipal government - to include education, health and local infrastructure necessary to develop the economy of the canton as a direct pro rata of the amount collected in Rent from each canton:- 33,3%
3. A secondary distribution to cantons for social security and pensions, frail care, adult education and improvement of the infrastructure, in direct proportion to the total number of people resident in each canton:- 33,3%

The per capita distribution of one third of the total budget is an essential part of the final solution. It is necessary to bring about a redistribution of the natural wealth of the nation without destroying the means of production. In extreme cases a portion of this may be

paid to individuals as a subsistence allowance. This may apply to unemployed marginal labour in rural areas, not in squatters' camps.

Collecting the annual Rent on land and a redistribution of one third of it per head of capita across the whole nation is the only way in which almost all bureaucratic controls can be removed and a truly free market economy established. This could be given free reign without the fear of exploitation of the masses and without the fear of monopolies gaining strength. This should reduce the tendency of land collecting into fewer and fewer hands and give people the incentive to develop to their full capacity. Progress should no longer lead to greater poverty.

The above method of taxation and distribution should provide a solution to the economic problem inherent in the suggested canton system. It would also remove the need felt by communists and the A.N.C. completely to destroy capitalism and the bourgeoisie. There is no need to hand over government to an unqualified and economically ignorant proletariat as proposed by Karl Marx and practiced with disastrous results by communist states.

Sub-marginal cantons, far from becoming depopulated by mass migration to prime cantons, could attract a net inflow of people to economically viable retirement centres. Land, buildings, labour and services would be relatively inexpensive. Educational facilities, training colleges, frail care and special hospitals would be better placed in these less congested areas. They would be away from the smog and pollution of industrial and mining areas. The dying infrastructure of many platteland areas could well take on new growth. Employment opportunities could be offered to those presently living under adverse conditions in squatters' camps which are a major threat to both those who live in them and the surrounding cities and towns.

Central government should have no power to tax citizens directly. Government would have to tailor its budget to fit within the one third of total Rent collected. In good years, provision could be made for national emergencies. Central Government would also handle the statistics of redistribution of one third on a per capita basis to cantons but charge no handling fee; there should be no encouragement to proliferate bureaucracy.

Central government would not be encouraged to impose any form of tariffs or customs on international trade. In due course protective tariffs would become unnecessary. As production increases the cost

of production would decrease. The country would be better prepared to enter the export market and would rapidly improve its balance of trade.

Collecting tolls on national roads would also be completely unnecessary as the presence of these roads would automatically increase the annual Rental value of all property which gained an advantage from these roads. The capital cost of roads and other infrastructure would soon be amortized by increased Rent arising therefrom.

10. INCENTIVES

Once all other forms of taxation had been removed, the Rental value of land would increase significantly and the total revenue collected could well be higher than required. A portion of this excess could be used to give a variety of desirable incentives. Of particular interest would be an incentive to encourage individual ownership of farms, business, and industrial or domestic property. This could be achieved by giving a base line rebate to all who owned, lived on and worked farms or owned and worked industrial sites, or owned and lived on residential land. Only one rebate on annual Rent would be given per family. This would help to create a stable society at very little cost. Rental values would again adjust to absorb most of the economic advantage while still discouraging the growth of monopolies at the expense of small business and individual enterprise.

The system of a base line rebate would mean that those people occupying land near the margin of production would pay no Rent. However, the land would still have a small Rental and market value.

Land beyond the margin, by definition, is not workable on a continuous basis under present conditions. With the proposed system and a base line rebate, much of this land would become productive or at least be occupied. In the absence of a Rental value, the full rebate would become a subsidy payable in cash to the occupier. This would encourage the sick, lame and aged to move away from prime and good land and settle on sub-marginal land where they would not be condemned to live in poverty. Anything that they produce on sub-marginal land would bear no tax and added to the cash amount received as a rebate would improve their quality of life.

11. ECOLOGY AND HERITAGE

Concern is sometimes expressed about the effects on both the ecology and heritage buildings if the development of land is encouraged by a change in taxation.

Recently, conservationists have come to realize that the correct change would in fact assist their cause when the greedy eyes of unearned profit are tamed. Collecting the Rent on land, or a user charge, is the only way to reduce the powerful force generated by the expectation of unearned profit; profit available through land speculation or obtaining improved user rights. When this force is reduced then it will become easier to carry out conservation programmes. More land will be available as wilderness areas rather than being withheld as long term speculation. "Leap-frog" and "ribbon " development of urban areas will be reduced and there will be less encroachment on rural areas.

To preserve historical buildings and outstanding architecture it will only be necessary to match the consent use in the title deeds to the existing building and Rental value will drop. There will be no long term speculative value and no advantage in demolishing the existing structure. This will be more effective than a market in transferable air space or consent use.

12. CONCLUSION

The problem of land tenure must be resolved before a united and peaceful nation can be built. It is in the interest of the whole nation that incompetent and unproductive people should not withhold good land from productive use. Land should be available to those best able to put it to good use. It is also in the best interest of the more competent and productive people that the Rent value of the land on which they enjoy tenure should help to subsidize those unable to support themselves provided that they are prepared to move away from economically productive land. This would assist the less productive people to live above the bread line on the less productive marginal and sub-marginal land. Here, whatever they can produce would be theirs and they would live completely free of taxes. They would also receive a small subsidy from the Rent collected on prime land. This is far better than having them completely unproductive and fully reliant on society, either legally or illegally. In the absence of taxes, an informal economy could be developed on marginal land

but any taxation imposed on that marginal land would again tend to destroy that informal economy, as explained in Diagram 2.

Many well known authors and leaders have been concerned by the age-old problem of poverty but few have provided a workable solution. The well-tried methods have not worked. By collecting the Rent of land for public revenue and untaxing both labour and capital, speculation in land will be reduced and idle land will be made available to unemployed labour. The age old problem of poverty would be significantly reduced.

Backing the above proposals is the fact that a group of some thirty top western economists including three Nobel prize-winners are signatories to an open letter to Mikhail Gorbachev. The economists urge the Soviet President to retain land in public ownership, and to raise government revenue by charging rent for the use of land. They state 'In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately.' Henry George said that it is not necessary to confiscate the land but only necessary to confiscate the Rent.

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Area, R.S.A.

$$\frac{10.4\text{ mm} + 7.2\text{ mm}}{.13} = 135.38\text{ mm}$$

$= 286.5$ m.a., $= 448{,}000$ s.m.

$= 2.9 \times$ Calif.

N.F.: S. Africa

EDITED BY STANLEY REED

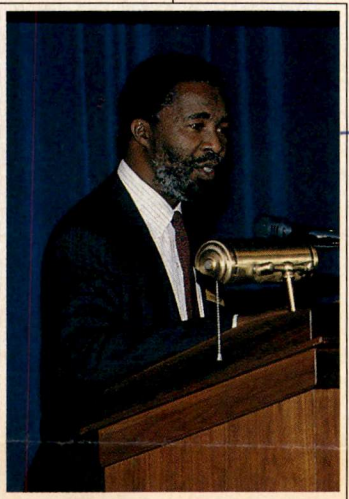
THE ANC TO U.S. INVESTORS: ON YOUR MARK, GET SET. . . NOT JUST YET

It could be the start of a new relationship between Corporate America and South Africa's leading opposition party. In early October, at an inn overlooking a golf course on the University of Notre Dame campus, executives from such companies as General Motors, Coca-Cola, and Xerox exchanged cards and chitchat with once-exiled leaders of the African National Congress. At the ground-breaking meeting, the Americans had come to take soundings on the investment climate in a postapartheid South Africa.

The American executives listened carefully for a signal on the party's stance toward current and future U.S. investment. They got one—sort of. "Now is the time to begin making preparations for entry or reentry into South Africa," declared Thabo Mbeki, the ANC's director of international affairs. "It is important to us that South Africa is on the agenda of the U.S. corporate world. We are looking for new investment."

DELICATE LINE. No wonder. Even the ANC, long suspicious of capitalism as apartheid's handmaiden, concedes that South Africa needs growth to help heal its deep social wounds. Yet growth seems a taller order than ever. The economy is entering its 30th month of recession, unemployment is running at 20%, and inflation, at 15% a year, is eating away salaries. The economic stagnation has played a role in the bloody fighting between the ANC and Inkatha, a rival black faction. Without economic growth, the ANC leaders fear, the poisonous political unrest will continue.

But the ANC must walk a delicate line between wooing foreign investors and protecting one of its most powerful political weapons: support from the international community. Although federal sanctions are now history, companies still face restrictions on ties to South Africa by 142 state and local governments. These remaining sanctions are still a powerful bargaining chip with the ruling National Party back home, as Pretoria and opposition parties try to hammer out a new constitution. That's why, in response to pointed questions from executives, Mbeki steadfastly maintained that it was not yet time to lift such sanctions. He bristled when Assistant Secretary of State for African Affairs Herman J. Cohen seemed to disregard the ANC's views and declared it U.S. policy to "encourage businesses to consider South Africa as a potential investment opportunity."



THE ANC'S THABO MBEKI

LIMBO. For American companies wishing to reenter Africa's richest market, Mbeki, 48, could be just the man to know. Widely viewed as a possible successor to the 73-year-old Nelson Mandela, Mbeki is among the ANC moderates on such issues as nationalization of private industries and redistribution of wealth.

Even without a clear go-ahead, there was a flurry of proposals and requests for meetings. Former Reebok International COO C. Joseph LaBonte, high-profile Chicago Housing Authority Chairman Vincent Lane, and A. Bruce Rozet, chairman of Associated Financial Corp., a low-income housing developer in Los Angeles, want to build 50,000 houses in South Africa. Ronald Gault, a managing director of First Boston Corp., is bringing black managers to the U.S. for a six-month training course. And Tokheim Corp. Chairman John E. Overmyer, whose company now sells service station equipment in South Africa, stuck his hand out to Peter T. Rabali, a leader of NAFTO, a black-run South African transportation group. "Hope you'll keep us in mind if you need any gasoline pumps," said a grinning Overmyer. It may be a while, but U.S. corporations are clearly eager to do more business as soon as the political hurdles are lowered.

By Julia Flynn Siler in South Bend, Ind., and Elizabeth Weiner in New York, with Alan Fine in Johannesburg

GLOBAL WRAPUP

JAPAN

Tokyo's next leader isn't likely to please reform-minded Japanese voters or put relations with the U.S. on a better footing. The two leading candidates to succeed Prime Minister Toshiki Kaifu—Kiichi Miyazawa, 72, and Michio Watanabe, 68—are both faction bosses. Miyazawa, who was implicated in the Recruit scandal, may have the edge, since he's senior to Watanabe and is more presentable abroad with his fluent English. He still has to overcome the dislike of the leading power broker, Noboru Takeshita, who could anoint the crusty Watanabe. Miyazawa might also wangle Watanabe's support by promising to hand him the reins in two years. That arrangement would mean at least four more years of turn-taking rule. It would also distress the many Japanese who say they'd be ashamed to have their country represented by someone with as salty a tongue as Watanabe.

But whoever wins, Japan is retreating from the whiff of change offered by the 60-year-old Kaifu and turning back to an older generation of leaders. Thus, at a time of increasing friction with the U.S., Tokyo will continue to be dominated by back-room faction leaders who focus on keeping their local constituents prosperous rather than on meeting American concerns.

GERMANY

Karl Otto Pöhl, who quit as Bundesbank president this summer, is picking up plum after plum. In the first week of October alone, he was named a partner in the classy Cologne private bank Sal Oppenheim Jr., a director of Dutch mutual fund group Robeco, and a trustee of the Krupp Foundation, 75% owner of Fried. Krupp steel. Earlier, he notched up a directorship of Bertelsmann, Europe's biggest media group. Pöhl clearly stands to rake in more than his $210,000 Bundesbank paycheck. But he's keeping a central-bankerly silence about how much more.

STEVE LEONARD/BLACK STAR

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5 Mar 92 p. 2

New agreement on South Africa transitional government is near

The Associated Press

JOHANNESBURG, South Africa

The government and black groups moved closer to agreement yesterday on forming an interim leadership that would put blacks in power for the first time.

In private talks, government representatives supported the appointment of a multi-party Cabinet to oversee the transition from white-minority rule. The Cabinet would include members of black opposition groups such as the African National Congress.

The Convention for a Democratic South Africa, a group of 19 black and white political organizations negotiating the country's future, would appoint the Cabinet.

This is in line with proposals of the ANC, the country's main black opposition group. Previously, the government said the current Parliament, which does not include blacks, should approve any changes in government.

The government's chief negotiator in the political reform talks, Barend du Plessis, called the development a breakthrough, but said many issues regarding an interim leadership still were outstanding.

Effort to Reverse Decades of Land Discrimination

Zimbabwe Struggles to Resettle 750,000 Blacks on Farms Bought From Whites

By JAY ROSS, *The Washington Post*

CHINYIKE, Zimbabwe—Justin Morris proudly displayed the slip of paper that proved his illegal squatting on government land had been worthwhile.

Government officials had assigned his family of three wives and seven children to a 30-acre plot in Field 62 of Village 17 at Chinyike, a vast agricultural resettlement project 80 miles southeast of Harare, capital of Zimbabwe.

The friend he was visiting, Joel Chivunga, had not been so lucky. Chivunga's family of 10, including three wives and six children ages 1 to 8, were living in fear that the police would evict them from the small plot they had been occupying for four months.

Their two huts had a look of impermanence and were placed out of sight of the road to Chinyike, which is scheduled to provide a new home for 4,000 landless families in the largest resettlement project in this southern African country.

The different fates of the two families illustrate the dilemma faced by the young government as it strives to reverse decades of land discrimination against blacks by the previous white government of Rhodesia.

Half the farming land—the most fertile part—was reserved for about 5,000 white farmers. The other half was slowly worked out by about 750,000 black peasant farmers.

The government has launched an ambitious program designed to resettle about 10% of the country's 7.5 million population on land purchased by the government from the whites and yet not disturb Zimbabwe's enviable status as one of the few black African countries that is self-sufficient in food. The white farmers produce about 90% of Zimbabwe's marketed agricultural output.

The plan calls for more than half of the white-owned farmland, about 20 million acres, to be bought by the government and then farmed by landless blacks on private plots, cooperatives and state farms.

If the change moves too rapidly, Zimbabwe could shift from the elite ranks of food exporters to the common African pattern of food importer. If it goes too slowly, the government will face mounting political opposition, because to hundreds of thousands of blacks, the bloody war that brought independence three years ago was fought over land.

So far the government has acted cautiously, with only about 18,000 families resettled, mainly on individual plots, in 2½ years. The government, however, has now set a target of resettling 162,000 families, if possible, in the next three years, a goal that is almost certainly unreachable. The current rate of settling 1,300 families a month would have to be almost quadrupled to attain the goal.

"We are definitely behind schedule," said Langford Chitsike, permanent secretary in the Ministry of Lands, Resettlement and Rural Development. He blamed water shortages for most of the delay but also cited organizational difficulties and dissident violence.



Washington Post

Squatter Joel Chivunga sits with his wives and children in Chinyike resettlement project in Zimbabwe. The government program is designed to reverse years of land discrimination.

The squatters maintain pressure on the government, and they also devastate the land by farming on steep terrain and riverbanks, cutting down trees and grazing cattle indiscriminately.

Although no firm figures exist, one official estimated that there are 75,000 squatters in the mountainous eastern highlands near the Mozambique border. Most are urban residents who are not eligible for land.

Most of the squatting is on government land not yet allocated for resettlement, but one white farmer had about 800 squatters for two years before the government moved them to a new settlement or back to a mission.

One official noted that squatters often accompany their demands for land with contributions to the ruling political Mugabe's party.

Please see ZIMBABWE, Page 7

Los Angeles Times

ZIMBABWE: Land Resettlemen

Continued from 6th Page

Such political pressure is of great concern to Jim Sinclair, head of the commercial farmers' union, which represents the white farmers.

"The resettlement program is far too much a response to political pressure rather to economic reality," he said.

To resettle 162,000 families under the program means the government will have to buy 60% of the 40 million acres of white-owned farmland, he said, or 24 million acres. That would put some of the most productive acreage in the hands of novice farmers, since the program is for the landless and jobless. Experience in farming is not a requirement.

It will also mean, according to Sinclair, that most of the 300,000 families currently working for the commercial farmers will either have to be moved or accommodated in the resettlement schemes.

"What's the point of destroying something to replace it with something that doesn't work as well?" Sinclair asked.

He also said the projected plots for individual farmers, which have been progressively reduced from 200 acres to as little as 12 in some cases, are too small to be viable. The farmers will not have title to the land, but only the use of it on a renewable annual lease, which, he maintained, will block expansion and individual initiative and hamper productivity.

The ministry's Chitsike responded that officials "are trying, as much as they can, not to disturb highly productive farms," which provide "a bankable source of supply."

State farms, he said, operate on the same basis as commercial farms and can supplant them in some cases, although in many African countries such ventures have failed.

Rather than fragmenting good farmland, the sites can become cooperatives, supporting 50 or more families, he said. Although most of the farmers resettled so far have been placed on individual plots at their request, the government hopes eventually that more than half will be on cooperatives.

He also challenged the assumption that black peasant farmers will be less productive. Under the old regime, he said, whites got all the advantages while blacks "were cut off from anything that modernized agriculture."

The average white farmer received $18,000 a year in short-term credit while the figure for the black peasant farmer was $2, he said. Blacks had the worst land, did not receive agricultural exte
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Agree on Cooperative

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ANC case for fair share-out of land

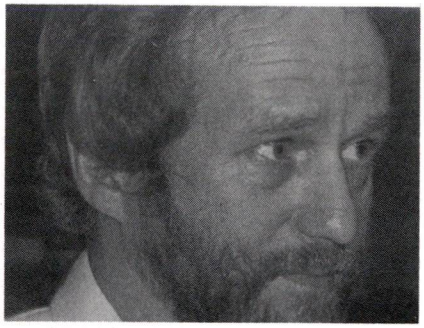
SOUTH Africa remains a powder keg, as the races and tribes jockey for power in the post-apartheid era. White farmers are likely to be the focus for violent reaction, particularly if the African National Congress redistributes land in favour of blacks, writes IAN BARRON.

Land reform will determine the outcome of the historical conflict over territory. The ANC's thinking was discussed by five representatives at a seminar in Cambridge, Mass., in September.

Reformers are approaching the problem in terms of blaming apartheid. This is colouring analysis to the point where serious policy errors could result.

That the ANC should desire a share-out of land based on justice — and to rectify historical crimes — is understandable.

Sammy Mhinga, from the Transvaal, explained how land laws were used to separate tribes from their traditional territories; and split families apart, such as forcing men to migrate in search of work.



• **Derek Hanekom**

To be effective, however, the ANC must learn that property rights can be constructed to exclude people from economic opportunities, even when the law grants formal equality to all citizens.

LAST July the ANC National Conference adopted a Land Manifesto which assigns a major role to government: the market mechanism is treated with suspicion.

On rural issues, the manifesto declares:

> **The state must play a key role in the acquisition and allocation of land. The state must have the power to acquire land in a variety of ways: expropriation with just compensation, purchase, grants of state land, taxes on land and other mechanisms can be used to ensure this.**

The land tax is viewed as merely one of many tools that can serve policy objectives.

On **urban land** problems and the need for low-cost housing, the manifesto says the government must

> **pass laws preventing developers from speculating in land; [and] generating revenue that will help to meet the costs of such a programme.**

The ANC has not yet realised that a land-value tax, at penal rates, is both the necessary and sufficient condition for preventing land speculation. This realisation may emerge when they learn that:

(1) No government, anywhere

TAX CHANGE TO TRANSFORM PROSPECTS

LAND disputes threaten the prospect of peace between black and whites in South Africa. Discriminatory land laws, in 1913 and 1936, divided the races. They have now been deleted, but the legacy is a stark one: 87% of the land is held by the white minority; and the 13% held by blacks is the worst quality land.

South Africa has a sophisticated land valuation system. Most municipalities raise part of their revenue direct from the rental value of land (Godfrey Dunkley, *That All May Live* **Roosevelt Park: A. Whyte, 1990).**

Aspirations about the use and distribution of land are explored by Albie Sachs in *Protecting Human Rights In A New South Africa* **(Cape Town: Oxford UP, 1990).**

Absent from the political debate, however, is a vision of how tax reform — raising the bulk of public revenue from the rental value of land, thereby diminishing the damaging impact of other forms of taxation — can transform prospects, by

- **Harmonising racial relations,**
- **Accelerating economic growth, and**
- **Diffusing wealth.**

The African National Congress believes that it would receive over 50% of the popular vote. It has now joined the Pan-Africanist congress to lead the Patriotic Front. One objective: the formation of an interim government to oversee the transition to a non-racial society.

The ANC regards this as vital, for it fears the de Klerk government will pass laws to preserve discriminatory institutions — in particular, those dealing with the land.

mental destruction and the short-term consumption of resources essential for the future".[3]

We would not want to associate such travesties with people, would we? Better to ascribe them to something impersonal, "the market" — which lead, inexorably, to the vindication of those who demand state regulation of such threatening forces.

Henry George's major explanation for a malfunctioning market is associated with the system of property rights in land, which he adequatly demonstrated was wholly inconsistent with individual freedom, inter-generational responsibility and sustainable environmental activities.

In other words, his critique is a relatively simple one. But is it comprehensive? Let us swiftly review global problems from a Georgist perspective.

WARS. The Madrid peace process on the Middle East turns on whether Israel would swap "land for peace". Nearly all wars are fought over territory — land.

ECONOMICS. The recessions in the USA and UK have as their basis the speculation in land, which disrupted the labour and capital markets. We cannot analyse the process here, but observe events in Japan today: the government formally acknowledges that what is called "the bubble" took the form of speculation in land (or speculation in the shares of land-rich companies) which had to be throttled — and which is now causing a downturn in output.

ECOLOGY. Destruction of the environnent, in its various forms, is due entirely to the failure to compel users to pay the full price of natural resources.

Land, land, land. Whichever way you turn, you discover that property rights in land are the basis of the major global problems. Yet if you search the pages of *The First Global Revolution,* you fail to find any discussion about property rights in land. There is a fleeting reference to the speculation in US real estate which caused the bust of banks and S&Ls, but greater importance is accorded to financial speculation (which did not destroy jobs in the 1980s).

The Club of Rome does note that, in the Third World, people are driven from the land and into urban centres; but they nebulously link this devastating process to poverty, rather than identify it with a malevolent system of property rights.

The only philosophy that elevates land to its rightful place in the grand scheme of things was articulated by Henry George a century ago![4] It is, therefore, likely to be the philosophy that now commands our respect.

HENRY George argued that man-made goods should be privately owned, but that the economic value of land — rent — ought to be socialised.

The adoption of this simple, yet sophisticated, formulation of property rights, is the one necessary condition for the peaceful resolution of most of the major social and economic problems of the world today. Without it, for example, there can be no final solution to the problem of war.

George argued that a socially harmonious world required individual liberty (the key principle of western philosophy) underpinned by a strong communal spirit (the key principle of socialism). His philosophy synthesises these two elements into a single — unique — system.

On the "three immediacies" identified by the Club of Rome, two — war and poverty — are exhaustively addressed in George's works. The third — ecology — was treated superficially; but the theory, because it recognises the importance of land and rental income, affords a complete solution to the sustainable use of natural resources.[5] (The "green" character of the Georgist philosophy is explored in a new book edited by Sara Parkin, to be reviewed next issue).

The problem of how to allocate common property (land) to individuals for their exclusive use, is resolved through the tax system. George noted that tenants pay rent to their landlords; that rent is a "tax" on some users of land, and all we need to do is generalise that system — and make the community the beneficiary of the rent.

This, argued George, would generate sufficient income so that it would not be necessary to tax people's wages or the interest received from their capital investments. Economists have not been able to fault this

Continued on page 92 ▶

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in the world — except in the command economies of the East — has succeeded in "preventing developers from speculating in land"; and

(2) unless the land-value tax option is exercised, the government will be obliged to raise revenue from other sources of income — which retards economic development.

The manifesto touches on a range of issues that are best resolved by land-value taxation and the free market. For example, the ANC points to the need for "A programme for the renewal of inner cities", but it is attracted to solutions based on government action:

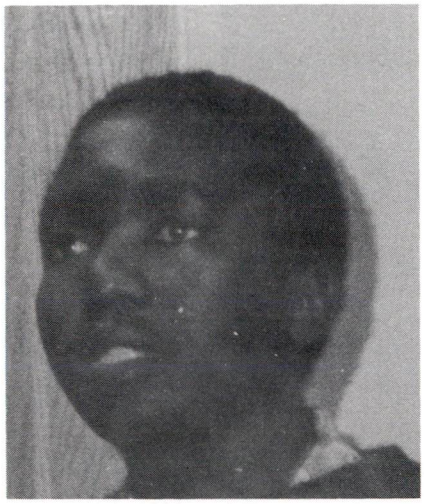
> **A programme for the transformation of the apartheid city must include affirmative action for the provision of land for affordable accommodation, commerce and industry.**

LVT IS the only tool that provides a *comprehensive* solution to vital issues such as cultural renewal and economic security.

Heinz Klug, a member of the ANC's Land Commission Secretariat, is a law lecturer at the University of Witwatersrand, Johannesburg. He stresses that the "free" market in land means little for the impoverished farm labourer who could not raise the capital to buy a white-owned farm.

Klug said: "There could be a land tax to try and get land to change hands. But as far as I am concerned that is going to be totally inadequate. For the massive redistribution that is required to create an agrarian structure that is acceptable, it would be impossible to rely on the present market structure".

Klug is not aware of the benign impact of a very high tax rate on land rents. But the ANC will have to work this out, if it is to comply with its intention of maintaining current levels of agricultural productivity.



• **Sammy Mlinga**

THE restitution of land to those who have historical claims is a high priority. The ANC proposes a Land Claims Court. Compensation would be paid to disappointed claimants.

The ANC does not plan to nationalise land; where people are dispossessed, they would be compensated. This implies fearsome financial problems.

That the ANC has an enormous job of self-education on its hands is illustrated by some of the problems which it is now posing.

For example, Klug asked "How do you establish when a person has sufficient land? Should 'underused' land set the limit on possession?" Resolving such issues through bureaucratic mechanisms would entail the postponement of the day when everyone was free to participate in a full-employment economy.

Dennis Davis, Director of the Center for Applied Legal Studies at the University of Witwatersrand, acknowledged that tax policy was important.

He said, for example: "Tax might be used to redistribute land by ensuring that people are pushed off," and tax revenue was needed by the Land Claims Court "to buy out land or engage in reparations".

In the homelands, Davis noted, "because you don't have private land ownership, there is no tax base". In fact, this "problem" affords an opportunity for demonstrating that LVT is an ethically-based system that accords with anthropological tradition.

He then asked a tough question:

Q: "Would a South African agricultural land tax raise revenue of substantial amounts?"

A: A 2% site-value tax would generate 1.2 billion rands, but this was "far too high, because any realistic property tax would have to take account of exemptions. So we are talking about less than a 1 billion rand tax haul. If that is so, it is not a major revenue haul, so we have to be cautious about the land tax ... it is not a major money spinner".

International precedent did favour a land-value tax, he said, but drafting the law would be difficult, to avoid penalising "the people you want to benefit".

That comment indicates the bias in favour of trying to rectify the result of apartheid, rather than treating all prospective farmers as equal, allowing the most efficient to possess the land, and ensuring — through a 100% LVT — the equal enjoyment of the value of land by everyone.

The full-time Co-ordinator of the ANC Land Commission is **Derek Hanekom**. His wife served four years in prison for possessing ANC literature.

To evolve policies from the grassroots up, the ANC has divided the country into 14 areas, each with a Land Commission. Their lessons, he says, will have to be drawn from the "miracle economies" of the Third World.

Land speculatio

of ag

FRED HARRISON reports o of the Lincoln Institute fo research organisation whic philosop

AMERICAN industrialist John C. Lincoln's will contained a generous bequest to promote the ideas of reformer Henry George. Today, the Lincoln Foundation, which has $100m., funds the Lincoln Institute for Land Policy, of Cambridge, Massachusettes.

Initially, the Foundation did advocate Georgist ideas. For most of the postwar years, however, its attention strayed elsewhere. This would have grieved John Lincoln, who stood for Vice-President of the US on the Land Commonwealth Party platform in 1924.

Remarkably, however, Georgist perspectives are now being rediscovered: at its congress last September the Lincoln Institute's officials disclosed a renewed interest in the aspirations of its benefactor.

John Lincoln's son, David, opened the congress with this statement: "Dad was attracted by the concept of making the benefits of land available to all, but doing that without making land common property. He was also attracted by the tax plan that took for society what society created and left for the individual what the individual had created."

DAVID Lincoln emphasised that the Lincoln Institute had to be at the "cutting edge" of policy formation, which — in his view — explained the shift in their emphasis in the last few decades.

He told 200 delegates from 55 countries: "We realise today that there are many new facets to land policy that were not present 100 years ago. The world is a very different place today than it was then. These new forces are vital to the study of land policy, and must be taken into account in any programme of land policy study."

Yet it was difficult to discover anything new in the problems that were identified by the high-powered professionals who attended the week-long congress. This suggested that little has changed since Henry George published *Progress and Poverty* in 1879.

A primary example: today's economic recession in the USA (and the UK, Australia, other spots around the world — and now beginning in Japan). Henry George argued that land speculation was the major cause of economic recessions ... and the central problem of the current recession is precisely that: the speculation in land during the 1980s.

• Karl Case, a professor of economics at Wellesley College, Wellesley, Mass., explained that New England banks were going bust because of loans to real estate — which, he acknowledged, actually meant land speculators. "The bubble is now bursting because the land values were not justified by the fundamentals in the early 1980s," he added.

How do you stop the modern economy from cyclically diving into recession? Prof. Case said: "The problem may simply be that we do not have the political will to raise land taxes to levels high enough to really retard boom cycles. How high is high enough? No-one knows, but it is probably closer to Henry George's 100% than to the current laws around the world."

Lincoln Institute officials cite the global dimension as evidence

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REPORT
VERSLAG

No/Nr: 38/90
Ref/Verw:

Date/Datum: 1990-05-11

To/Aan: THE EXECUTIVE COMMITTEE

CITY OF CAPE TOWN
CITY TREASURER'S DEPARTMENT

STAD KAAPSTAD
DEPARTEMENT VAN DIE STADSTESOURIER

COMMITTEE OF ENQUIRY TO INVESTIGATE A RATING SYSTEM FOR THE CITY OF CAPE TOWN

1. INTRODUCTION

1.1 The Committee of Enquiry appointed by Council to investigate and report on a rating system for the City submitted its comments and recommendations in a Report which was publically released on 27 April 1990. The Committee's investigation and research was most comprehensive with submissions, both written and oral, being received from a wide range of authoritative bodies and persons throughout the country.

1.2 There is little doubt that the introduction of the recommendations contained in the Report will have far reaching consequences for the City. It would, therefore, be essential to investigate most thoroughly the implications of the recommendations and to give careful consideration to the proposed courses of action and methodology. It would be equally important to examine and evaluate the financial effect on various classes of ratepayers and also to consider the availability and adequacy of resources which may be required to implement changes to the existing systems.

1.3 As requested by your Committee, I append my comments on the Report. For reasons of simplicity these comments are focussed on the major recommendations as I feel it important that the Council take cognisance of and accept the principles involved before putting into motion the investigation and evaluations necessary to determine implementation ramifications and procedures.

2. RATING SYSTEMS (paragraph 2 Pages 14 to 29)

2.1 The whole principle of property taxation and the various systems for rating immovable property are analysed in great detail in the Report.

2.1.1 The Committee expressed the view that the growth and development of the City would be detrimentally affected by the continued adherence to the flat rate system. However, it could not readily accept the assertion of land speculation as there were no large areas of underdeveloped land within the municipal area. It was recognised that a more important aspect of site value

rating is the maximisation of land usage together with the significant advantage of simplicity of operation.

2.1.2 The composite rating system, which has a bias towards a higher tax on land than on improvements, combines advantages of both the site value and flat rating systems and thus provides the rating authority with flexibility in effecting adjustments to the taxation of the land and improvements according to prevailing circumstances. It does, however, lose the advantage of the simplicity of site value rating. From the evidence before the Committee it concluded that in the context of the development of a city, composite rating tended to lead to greater accountability, development and growth.

2.2 The Committee's Report confirmed that there is no ideal system through which income can be generated. It states "the significance of rating in the panoply of considerations that impact on good government was a matter of considerable dispute"; and "it is extremely difficult to evaluate its importance with any degree of confidence or objective certainty."

2.3 On balance, the Committee concluded that the Council should consider a move from a flat rate to a composite rate system. I fully support this recommendation.

2.3.1 In this regard the Committee also recommends that Council should gradually move toward an ultimate goal of a 10:1 ratio weighted in favour of site over improvements. However, to retain the flexibility of maintaining the base of improvements as a rating source, I believe that a 10:1 ratio should not be seen as a fixed commitment but rather as an indicator with constant evaluation of the impact in carefully managed stages.

2.4 The view expressed by the Committee that a change in the rating system should be a process and not an event is very wise. This is not a statement to delay change but simply to acknowledge the complexity and uncertainties of the effect of change. (The Council) ..... "would be well advised to manage the process astutely" states the Committee and also "it should be ..... only introduced in a carefully phased manner." In concluded "that a change in the rating system is in the interest of the City and all its people. It will not by itself solve our problems of lethargic development and slow economic growth, but it will, we believe, make a contribution towards stimulating these two engines of progress as well as increasing accountability."
I endorse these sentiments completely.

2.5 The Committee also expresses reservations on the use of rebates. "Excessive use of rebates must be avoided at all costs. We believe that the excessive use of rebates can undermine the viability and credibility of a rating system. They can, unless applied within a properly defined context, confer an arbitrary discretion which can place local government under severe pressure and thus lead to irrational responses".

I share these views.

2.6 Of particular interest in the conservation of the built environment (Paragraph 1.7.1 Page 11) is the concept of transferability of bulk which could combine conservation with development incentivies. This aspect deserves special investigation as a joint exercise with the City Planner.

2.6.1 It should be born in mind that unless the conservation aspect and updating of zoning regulations are considered concomitantly with the rating system, eventually pressures will arise to demolish existing property and redevelop to the maximum permitted bulk.

In some quarters this may be considered a desirable consequence although market forces would tend to dictate the pace of redevelopment. However, at this stage these pressures should be recognised in terms of consequential planning issues which would need to be addressed

3. PROPERTY VALUATION (paragraph 3 pages 29 to 45)

3.1 In evidence before the Committee, severe criticism was levelled against the legislative framework within which the valuation process presently operates - in fact, no submissions were received in support of the retention of the existing system. In some instances it was found impossible to quantify the factors which in terms of the Ordinance, must be taken into account in determining property values. Also, the process for lodging objections was cumbersome and inordinately time consuming

3.1.1 The Committee concluded that the criticism of the present system is justified and that the infrequency of valuations in itself is evidence that the existing valuation system is impracticable, costly and has to a large extent become unworkable. It felt that a new valuation roll should only be implemented if there is a fundamental review of the existing system.

3.2 Two alternative valuation systems were considered by the Committee, one based on rateable market values (also known as "The Investment Approach") and the other on market values. (selling price).

3.2.1 In the commercial property context, rateable market valuations will require the determination of rental areas, grading of accommodation, market rental values, operating cost allowances and market net income capitalisation rates. There are recognised principles on which these values can be determined. However it was proposed to the Committee that they be determined on a consensus basis between the various interest groups.

3.2.1.1 In the industrial property context the system will also require the determination of the proportion of land associated with the buildings which is then valued

THE STAR (JOHANNESBURG)
JULY 11TH 1990

Land possession will become fierce issue in new SA

The history of South Africa can best be described as a struggle over land. It goes back to the frontier wars of the 18th and 19th centuries. With the dawn of the 21st century barely a decade away, land is still a major issue among white farmers and landless black people, foreshadowing vigorous discussion when the subject reaches the negotiating table. PATRICK LAURENCE reports.

Land — or more accurately its inequitable division between whites and blacks — lies at the heart of the South African conflict.

The determination of white farmers to defend their lion's share of agricultural land is reflected in the result of a recent referendum: nearly 95 percent voted for retention of the status quo.

In what many observers consider a loaded question, farmers were asked by the Transvaal Agricultural Union if they favoured "white preservation of the land".

The skewered question, as much the answer, reflects how strongly white farmers feel about land.

But feelings run as deep on the opposite side of the racial divide, as the black majority, sensing that a new dispensation is in the offing, prepare to stake their claim to a bigger share of the land.

The origins of the land dispute date back in large measure to the frontier wars of the 18th and 19th centuries. Those wars, known to black historians as wars of dispossession, or wars of conquest, saw the black share of land shrink dramatically.

In 1913 the results of the wars were enshrined in law: the Land Act restricted the black share of the land to hardly more than 6 percent of South Africa.

It was one of the first causes taken up by the ANC after its formation in 1912.

Professor Julius Lewin's remark, made more than 30 years ago, remains apposite today: "Parliament thus presented the congress (ANC) with a grievance as deep and wide in its incidence as any that could have been imagined."

Later, in 1936, South Africa's white rulers, recognising the inequity of the 1913 Act, agreed to bring the black share of land up to about 14 percent.

But the then Prime Minister, J B M Hertzog, demanded his pound of political flesh: allocation of additional land was made conditional on removal of the small number of blacks who qualified to register as voters on the common voters roll in the Cape.

Later still, during the heyday of apartheid in the 1960s, Prime Minister Hendrik Verwoerd demanded an even heavier price: the loss of their claim to all political rights in the 86 percent of South Africa which was designated white.

Under the apartheid order, black political rights and ownership of agri-cultural land were confined to their "own areas" or "tribal homelands", which, after the final delivery of the extra quota of land promised in 1936, would amount to only 14 percent of South Africa.

It is a reflection of white reluctance to part with land — even under those favourable conditions — that the full quota of land promised in 1936 has still not been delivered.

The ANC and its offshoot, the Pan-Africanist Congress, refused to countenance Verwoerd's policies, insisting on an equitable share of the land for blacks, and on their inalienable right to full citizenship in the whole of South Africa.

When the ANC and the PAC were outlawed in 1960, even the perceived collaborators who rose to power, briefly, under Verwoerd's apartheid empire, maintained a constant clamour for more land.

They were met by the stern reply of Verwoerd's successor, Prime Minister John Vorster: he would, he said sombrely, fulfil the promise made in 1936, but he would not concede a square cemtimetre beyond that.

The historical wheel has now turned 180 degrees if not full cycle: President de Klerk has abandoned Verwoerd's policies, signalling his willingness to grant equal citizenship to all South Africans and to scrap the discriminatory Land Acts of 1913 and 1936. Hence the nervousness of most white farmers.

But the scrapping of the Land Acts is unlikely to resolve the problem or satisfy the demand of indigenous black people for a just share of the land. The free sale of land under a market economy is likely to work in favour of wealthy whites, not impoverished blacks.

Maldistribution

The major beneficiaries on the free sale of land will be the large landholders and giant corporations, accentuating rather than rectifying the maldistribution of land.

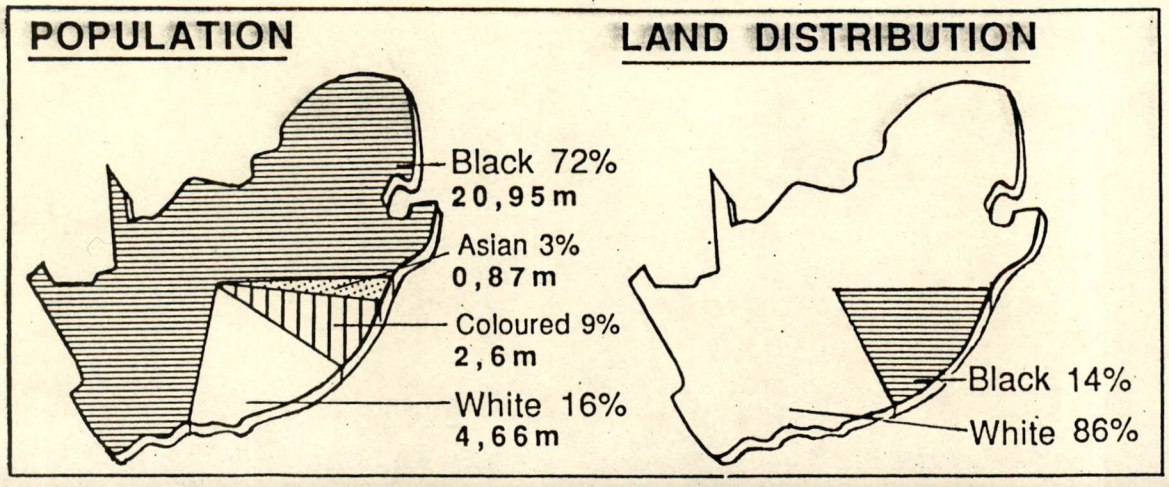
These predictions — made by a wide range of observers of, and participants in, South Africa's political dispute — form the background to increasingly shrill cries for State intervention to redress the imbalance.

Land remains a major point of contention even within organisations seeking a radical redistribution of land.

The ANC proclaims: "South Africa belongs to all who live in it, black and white."

The PAC, asserting the claims of indigenous blacks, the "rightful owners" as it calls them, accuses the ANC of betraying the black majority by giving parity to whites who "usurped" the land in the first place.

The land conflict is still a long way from resolution.



Veldt -

grassland, w. scattered trees,
shrubs. (park land
savannah)

CAPE ARGUS 8/9 FEB 1992

Scorched earth destroying farms

INSIDE

PROPERTY:
Review on the state of the property market
Page 8

THE ECONOMY:
Oil price set to drop and strike blow against inflation
Page 4

Weak silver is the worst market performer (along with coffee) since the 80s
Page 3

Dumped Masterbond

DAVID CUMMING
Weekend Argus Correspondent

JOHANNESBURG. — The disastrous drought has raised the spectre of millions of hectares of farmland lying unoccupied as desperate bankrupt farmers and their workers simply desert the platteland and join the flow to the cities.

This was the warning this week from agricultural economists who said there was little prospect of anyone buying the farms and that this would put huge pressure on commercial banks, co-operatives and the Land Bank — the major suppliers of credit to agriculture.

The economic, social and political consequences would be nothing short of catastrophic.

Dr Koos du Toit, chief economist of the South African Agricultural Union, points out that very few people or organisations were in a position to buy the farms, even if they were prepared to accept the inherent high risk of running them.

"A bankrupt farmer's neighbour cannot buy with a view to consolidation because it is likely that he is almost as badly off," Dr Du Toit said.

"And newcomers will be looking for bargains at prices liquidators would be reluctant to accept. Land prices have already fallen substantially.

"This means there is a real possibility that farms will simply stand empty. The question now is: will the State buy them?"

Dr Du Toit said there was no doubt that to avoid all the negative effects of urbanisation, the State would have to come up with some kind of aid package to avoid a disaster.

However, he feared that limited State funds would mean that it would be able to assist only some of those worst affected.

"Providing some sort of cushion now would make economic sense, since the cost, down the line, of accommodating those who flow into the cities will be far higher than that of paying a subsidy now."

Dr Du Toit said the Minister of Agriculture, Dr Kraai van Niekerk, was due to inspect the worst affected areas next week and there were scheduled meetings with farmers at Bethal and Kroonstad. It was possible he would spell out the government's intentions at these meetings.

An agriculture expert at a leading commercial bank agreed that there would have to be some sort of State action to avert the crisis and banks had adopted a "wait and see" approach to their exposure to agriculture.

"Official statements say the current drought is nearing a crisis. I am afraid the crisis is already with us and there is a real chance that deserted farms will lie idle.

"We understand that the Land Bank is sitting with 26 farms on their hands in the Vryheid district alone," the banker said.

WE ARGUS FEB 8, 1992

New tax fuels-

INFLATION, SENDS FOOD PRICES ROCKETING.

VAT

DISASTER

JEAN LE MAY, Weekend Argus Reporter

HOPES that VAT would curb inflation have been shattered by rocketing food prices and by manufacturers reneging on undertakings to pass on tax credits to consumers.

This emerged in a Weekend Argus inquiry this week into food prices. The food price index rose to its highest level in 11 years in December, spiralling to 28,3 percent for the year.

Consumers were assured by Finance Minister Mr Barend du Plessis that R7,5-billion of input credits allowed early last year to manufacturers for capital purchases would be passed on to consumers in lower prices.

However, a spokesman in the Cape Town office of the Receiver of Revenue said this week that there was "no way" tax authorities could tell whether input credits, in fact, had been passed on.

"All we get are the final figures submitted on the completed returns," he said.

Professor Louise Tager, who heads Vatwatch, said many companies and associations had signed their pledge undertaking to pass on credits, but there was no law to compel them.

"Many are public companies and in time the tax situation will be reflected in balance sheets," she said.

Mr Jasper Walsh, consumer spokesman for the Democratic Party, said that, at the time, the DP urged that input credits for manufacturers should be phased in over a full year.

"The government ignored this plea, arguing that the credits would be passed on in lower prices. This is not happening."

The question arose when a source close to the Board of Trade and Industry (BTI) told Weekend Argus that rising input costs in manufacturing and distribution were largely responsible for huge increases in the price of food over the past year.

Deputy Minister of Finance Dr Theo Alant blamed inflation for increases in the cost of living. In a letter to The Argus this week he absolved VAT, saying that in the long term it would curb inflation.

The BTI investigation into rising food prices is limping into its eighth month. Dr Hilgard Muller, who heads the investigation, refused to throw any light on its findings, saying he would be ready to report by April.

One of the problems, according to a spokesman in the office of Economic Co-ordination Minister Mr Derek Keys, was that "three different ministers are involved — Trade and Industry, Economic Co-Ordination and Agriculture. They started with an in-house investigation and then decided we'd have to get in outside consultants as well. And, of course, we've had a change of Ministers."

As usual, there are as many opinions as there are experts.

Mr Louis Heyl of LHA Management Consultants said his firm had looked into the profitability of major companies involved in food processing.

They had found that they were "not all that profitable. Margins are low and returns on investment pretty low".

Another source close to the BTI did, however, provide the clue — rising input costs could be largely responsible for the rise in food prices.

"If you buy a litre of milk, only 30 percent of the unit cost is for the milk," he said.

"The rest is in labour, packaging, cold storage, transport and so on. Labour costs have risen, a lot of packaging is imported and as the rand goes down the price goes up, petrol and electricity costs have risen. These are input costs — and they have risen like rockets."

Since there is no way of checking whether input credits for capital expenditure were passed on, it was "a fairly safe bet" that this was not being done, added the source.

Profit-taking by retailers has come in for a good deal of the blame. Retailers, for their part, shunt the responsibility on to manufacturers, saying there is not enough competition.

The statistics are frightening: Last year, food went up

■ Turn to page 3

VAT disaster

■ From page 1

28,3 percent, with meat up percent, vegetables 33,1 cent, grain products 16,9 cent, fish and seafood 19,4 cent and fruit and nu staggering 58,4 percent.

The significant figures that retail prices are inc ing faster than producer manufacturer prices in food chain.

The Central Statistical vices found that the agric al component in the Pro Price Index (PPI) went percent last year while manufacturing compo went up 14,9 percent.

However, the food co nent in the Consumer Pri dex went up 28,3 percent.

Although many experts cast doubt on the accura CSS statistics, Mrs Ina W assistant director of the cil, has no doubt they are rate.

"Until August 1990, w regular food price su through a firm of consu and published the result stopped then because w out of money — our fu has been cut by a third last three years — an price of food has roc since then. I see a conne

"Vatwatch has been surveys since last July they'll stop in March. start abbreviated su again then," said Mrs Wi

About 70 percent of a sold in the country is ru on the tills at Pick 'n Pa Bazaars and Checkers.

In the three months the introduction of V September 30, retailers 9,4 percent to food pric Consumer Council found.

Mrs Sheila Baillie Housewives' League a that retailers were stepp prices. The league's m survey of the cost of a "shopping basket" of 45 est possible items show quite clearly, she said.

However, Dr Piet Bo P B Botha and Associat other firm hired to he BTI investigation, sa profitability of the maj retailers — Pick 'n Pay, ers, OK Bazaars, Wool Shoprite and Spar — matter of public record'

He had found that a profitability was betwee 4 percent, which he c consider excessive.

REVIEW OF THE STATE OF THE PROPERTY MARKET

Waiting for a kiss of life

Business Staff

SIGNALS from the office and retail sectors of the property market suggest that the recession is beginning to bite, says the latest Rode survey.

"The industrial market is hanging on by the skin of its teeth as rentals drop, but vacancies there have not yet begun to show significant increases," says research director Erwin Rode.

The residential market remains relatively healthy, with a demand for rented accommodation and strong house price growth in the lower price suburbs.

Non-residential building contractors are in a state of panic as new contracts dwindle.

The overall impression is one of an almost moribund property market waiting for the kiss of life from the good fairy Economic Upturn.

Capitalisation rates:

Capitalisation rates on average have remained stationary during the last quarter in most cities and across all property categories. The exception is in non-prime offices, where capitalisation rates are under pressure as investor confidence in such buildings diminishes.

Office market:

The office market is in a fairly depressed state at present, with an overall tendency towards rising vacancies and falling market rentals.

Prime (Grade A plus) office rentals are generally shifting downwards in most areas, with this trend more dominant in metropolitan CBDs than in decentralised nodes. Rentals for other grades of office accommodation are also shifting either sideways or downwards, even in nominal terms.

Oversupply is increasing in the decentralised nodes of Pretoria and in the Cape Town CBD, and the CBD of Durban is beginning to drown in its A-grade oversupply.

Shop rentals:

In keeping with the results reported by major retailers, shop rentals appear to be just about holding their own, although rentals in some areas are tending to slip in nominal terms, Durban is a case in point.

Industrial market:

Nationally, prime industrial rentals are showing only a slight downward tendency. Although vacancies in some areas are edging yp, no large jumps have been reported.

The main area that contradicts this trend is the Cape Peninsula, where rentals for all unit sizes of 1 000 square metres and more showed an increase, with vacancy levels also marginally lower. However rentals for 500 square metre units in this area did follow the national trend and were somewhat down from last quarter'slevels.

House prices:

Indications are that in the quarter to June 1991, house prices held up reasonably well, with middle- and particularly lower-priced suburbs outperforming high-priced houses.

Regionally, Pretoria house prices were still depressed in comparison with other areas, while Durban and Port Elizabeth showed strong growth across all price classes.

Flat rentals:

Flat rentals, on average, are still moving upwards and rental growth in most areas over the past year has outpaced the inflation rate by a wide margin.

The only significant vacancy levels surveyed appear in the Johannesburg inner city and even vacancies in some of these areas have dropped since last quarter. Elsewhere, demand for flats is high, with vacancies at under 1 percent in most suburbs.

Building costs:

Building costs are tumbling as the recession is markedly depressing building cost growth — both measured by non-residential tender prices and input costs.

Building activity in the home sector is picking up smartly from a low base, and has a better prognosis for the coming year. However, non-residential building contractors are probably facing a lean year, given the degree of overbuilding in this sector.

IMF rejects spending cut for whites

Report supports rapid economic growth

HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — Top officials of the International Monetary Fund have concluded that it would be unwise to significantly reduce public expenditure on whites as a means of redistributing wealth in the new South Africa.

They believe such a policy would do little to relieve the poverty of blacks and would be less effective than the alternative of rapid economic growth.

In a long-awaited report by six senior managers and economists, which draws on the findings of an IMF investigation conducted inside South Africa last year, the officials also suggest that rather than trying to narrow the wage gap as a means of equalising incomes it would be better to concentrate on improved training and employment opportunities for blacks.

While the report is not binding on the IMF's directors, who make the final decisions on loans and investments, it is the most detailed and clearly defined outline of policy on South Africa to emerge from the organisation and it is likely to serve as a basic guide in dealings with whatever government emerges.

The report is also critical of the existing tax structure in South Africa and finds that the tax burden on the white community is "relatively high even by industrial country standards" and that raising taxes any further would bring with it the risk of "heightening disincentive effects" — apparently a clumsy euphemism for the flight of capital and brainpower from the country.

Dealing with the "poverty profile" of South Africa, the report notes that the reduction in economic growth which accompanied sanctions and domestic uncertainty in the 1980s, resulted in "a slowing of the earlier trend toward a more equal distribution of income and led to a sharp rise in the proportion of the black labour force outside the formal sector of the economy, to its present level of over 40 percent.

"The main conclusion to be drawn is that poverty in South Africa is so severe that redistribution policies, which alone will not be adequate to counter it, must be supported by policies designed to place the economy on a higher growth path. Only then could the economy be expected to generate the resources necessary to satisfy the needs of the least privileged sectors of society on a sustained basis."

The report acknowledges that the narrowing of the "wedge" between white and non white wages was largely responsible for the improvement in the share of income come by blacks over the past two decades.

But it adds: "For purposes of policymaking, this finding suggests that future improvements in income distribution between the races will need to derive mainly from better training and better employment opportunities for non whites rather than from a further compression of the wedge between wages for different racial groups."

Budgetary priorities in recent years had shifted towards social goals and a comparison of South Africa's overall level of social spending with that of other countries at a similar stage of development suggested that it was relatively high by international standards.

"This comparison also suggests that the scope for further compressing non-social spending in South Africa is limited and therefore implies that social expenditures will need to be reordered if the budget is to attend to the needs of the least privileged groups of society without significant resort to deficit financing or to higher taxes.

"The examination of the per capita level of social spending by different racial groups indicates that, despite some progress in recent years, South Africa's budget still reflects very marked differences between the races."

Dear Mason,
Just a few extracts which should help to give you an update on thinking in R.S.A.
Regards Geoffrey 14/2/92.

OR 510 2719
HAULGOODS
FOR TRANSPORT

ARGUS JAN 25 - 1992

SA in throes of full recession

'It's like the Great Depression of 1929'

DUMA GQUBULE
Weekend Argus Correspondent

SOUTH AFRICA'S unemployment rate is comparable with that of the Great Depression in the United States in 1929.

The nation is in the throes of a full-blown recession — not just the "long and shallow" label the Reserve Bank and other commentators have given it, according to Investec economist Mr Hendrik du Toit.

Mr Du Toit, in Investec's latest economic focus, says the conventional approach of comparing one year's performance with the previous one is misleading because, after a decade of miserably low economic growth, the bases used in such comparisons are extremely low.

For example, part of the reason for the small decrease in demand since the second quarter of 1989, when the recession started, is the low base from which the cyclical downturn began.

Even before the present downturn, the stock of durable and semi-durable consumer goods — as well as capital goods — was already worn down.

In addition, because the current recession has been so long, the cumulative effects have been much greater.

"When one looks at absolute figures, a different picture emerges. Real fixed investment, in absolute terms, has fallen 7,7 percent during the current recession compared with the 2,3 percent the Reserve Bank uses. The bank's figure is based on an annualised rate of change."

The main effect of the slump in fixed investment has been the sharp decline in the ability of the economy to absorb new entrants. The rate of unemployment is comparable with that of the Great Depression in the US in 1929.

As a result, the decrease in employment during this recession has been much greater than during previous recessions.

However, the good news is that after 1,5 to 2 percent growth this year, the economy could be on the way towards achieving sustainable and higher rates of growth.

"This will depend on being able to attract vast amounts of foreign capital and being able to generate sufficient confidence in the economy to inspire a major investment drive."

But there's hope yet . . .

JOHANNESBURG. — South Africa needs to adapts its definition of unemployed to reflect the realities of a developing economy with a large informal and semi-formal sector — if the country really wants to address job creation effectively, says Small Busines Development Corporation MD Dr Ben Vosloo.

He said that in South Africa, as in most developing economies, the main employment problem was the large number of under-employed people working in the informal sector.

SBDC economist Dr Edwin Basson estimates that approximately 3,5 million of South Africa's economically able labour force of 14,3 million are active in the informal sector and a further 2,8 million are either in subsistence agriculture or unemployed.

In terms of the Western definition, Dr Basson said, some 6,3 million people would be regarded as unemployed — giving SA an unemployment rate of some 44 percent but, he adds, if those employed in the informal sector were taken into account the number unemployed would drop to 2,8 million or 20 percent of the economically active population.

Blow to hopes for world aid to SA

The Argus Foreign Service FEB 7 1992

WASHINGTON. — South Africa's hopes of getting aid from the United States and from international bodies such as the International Monetary Fund and the World Bank could be dashed by a new Bill which has come before the US Senate.

It bans all US aid to countries whose military expenditure exceeds 3,6 percent of their gross national product and it would require the US to oppose the acquisition by such countries of loans from the IMF and the World Bank.

Because the US is by far the largest contributor to IMF and World Bank funds and thus wields more power in these organisations than any other country, its opposition to the granting of loans probably would be decisive.

The new Bill, proposed by Senator Alan Cranston of California, was not targeted at South Africa specifically. Rather it was aimed at discouraging the dangerous and wasteful proliferation of weapons and military expenditure in developing countries, and discouraging the formation of military governments.

But South Africa falls within the scope of the envisaged US legislation. Although expenditure on defence has dropped significantly since President de Klerk came to office, military spending still is some 4,3 percent of gross national product.

As a percentage of the national budget, South Africa's allocation of funds to the military also is enormous - 11 percent in the 1991-1992 budget went to defence, although this was down from 15,2 percent in the 1989-1990 budget.

While the president is allowed a fair degree of discretion in granting waivers to the limitations of the Bill, by and large he would have to prove to the satisfaction of Congress that there were compelling reasons for granting aid to a country where more than 3,6 percent of the gnp was spent on defence.

LAND TAXES AND LAND REFORMS IN THE THIRD WORLD:

EXPERIENCE AND RECENT DEVELOPMENTS IN LATIN AMERICA, CHINA, RUSSIA AND EASTERN EUROPE

Prof. John Strasma
University of Wisconsin-Madison, USA

1. Land Reform, from Ancient Rome to Mexico, Russia, Japan and now.
2. Land Reform, from Slogan to Fact to Completion.
3. Problems in Design:
   a. Economies of Large Scale: Fact, myth, pretext, part truth.
   b. Conmmunities. When do beneficiaries become small farmers?
   c. Paternalism. Who decides what? Can they change their minds?
   d. Subdivision, part-time farming, and transactions costs.
   e. Expropriation: size, use, reserves and reparations.
   f. Reform Increases Productivity: Myths, facts, sequencing.
   g. The importance of Research, Feedback and Flexibility.
4. Land Taxes and Land Reform: Substitutes or Complements?
5. Land Taxes are Related to Benefits and to Local Government;
   Land Reform and Wealth taxes to Distribution, and are National.
6. Cadastral Surveys are Essential for both Revenue and Reform.
   Recent changes in technology and management cut costs, time.
7. Tax Design: Flat rate, progressive, or only the unproductive?
8. Other taxes on Land: Annual Net Wealth Tax; Equalization Levies.
9. Payment very gradual, credit taxes paid, no adverse impacts.
10. West German example; Finland example. Relevant for South Africa?
11. Relationship of land taxes, land reform, and other measures.

Restructuring the rural economy: A strategy for land access — Editorial review

Michael de Klerk*

The right to own, occupy and use rural (and urban) land in South Africa has, at least for the greater part of this century, been circumscribed on the basis of race. This has been a cornerstone of 'apartheid', the removal of which in more than just the letter of the law will be of cardinal importance for the legitimacy of a government claiming to be non-racial and democratic. Needless to say, bringing about effective change to what have become firmly entrenched patterns of ownership, occupation and use, without at the same time seriously impairing the productive capacity of agriculture, will be no easy task. This special edition of *Development Southern Africa* examines some of the issues surrounding the restructuring of the rural economy that must occur, as well as some of the options for bringing this about.

As Ann Bernstein's foreword explains, the twelve articles appearing in this issue of *Development Southern Africa* were commissioned as part of the research programme undertaken by the Working Group on Rural Development of the Private Sector Council on Urbanization (PSC). The articles were selected from the approximately forty papers, reports and commentaries of substance prepared for the Working Group and represent the essence of the evidence that emerged.

It is not the purpose of this edition to discuss the findings of the Group. These are presented in full in the publication *Rural development: Towards a new framework*, released recently by the Urban Foundation (UF) on behalf of the PSC. (For a brief statement of the policy proposals, see the foreword and the opening sections of Simkins' article in this edition.) Rather, the intention is to present readers with analyses from which they may draw their own conclusions, as an input to the debate on restructuring the rural economy in South Africa that is now rapidly gathering momentum. This is in keeping with the UF/PSC proposals which, the Council points out, 'should ... be seen as a contribution ... to a vigorous national debate ... on rural development policy ... and not as a "blueprint" for unilateral imposition' (Urban Foundation, 1990: 5).

The first versions of most of the twelve articles were written in 1986 when the likelihood of significant political change in South Africa appeared remote. Many were substantially revised earlier this year to reflect the new, more fluid political environment, but in some instances, where the papers were still judged by the editorial team to be of a quality and relevance sufficient to warrant inclu-

* School of Economics, University of Cape Town

sion, redrafting was not possible. Readers are asked to bear this qualification in mind.

'Rural development' encompasses an immense range of issues and it would clearly have been impractical for the PSC investigation to have attempted to be comprehensive. Accordingly, the research programme focused primarily, although not exclusively, on:

- Access to land, as the pivotal resource in the rural economy (while recognizing the importance of complementary inputs) and as a key political issue.

- Commercial agriculture, as the main engine driving economic activity — and thereby creating sustainable conditions for residence — in rural areas. Most such activity is, for historical reasons, currently situated in what are often referred to as the 'white rural areas'. Although three of the most penetrating articles (by Nattrass & Nattrass, Cross and Tapson) focus on what one could then call the 'black rural areas' and, directly or indirectly, on the issues surrounding the emergence or revival of commercial agriculture in these areas, the centre of attention of most of the articles is the present 'white rural areas', where, arguably, the most significant aspects of restructuring will have to occur. Perhaps because of the apparent impossibility of change, these areas have also received less attention in development literature to date.

- Public policy and institutions, as the most influential determinants of the nature of change, at least in the initial phases of the restructuring. However, the implementation of this process is not exclusively the domain of the public sector, as the interesting article by Ardington shows.

The overall theme of this edition, 'restructuring the rural economy: a strategy for land access' was divided into a number of sub-themes for selecting the articles. These were:
- the need for rural reform in South Africa (article by Davenport)
- comparative international experience (articles by Moll, Fair and Davies)
- findings from surveys conducted for the Working Group (articles by Lodge and by Van Zyl & Fényes)
- rural development in the present 'black rural areas' (articles by Nattrass & Nattrass, Cross and Tapson)
- suggested strategies for restructuring (articles by Simkins and by Fényes, Van Rooyen & Vink)
- some roles for the private sector (article by Ardington).

Inevitably, many useful contributions had to be omitted. A full list of research carried out for the Working Group is to be found in the UF/PSC publication referred to above. However, some papers had already been published elsewhere: those by Fair and Davies were considered important enough to be reprinted as part of this collection.

Among the most fundamental reasons for rural restructuring are the denial of access to land in all but the present 'black rural areas' to black South Africans; the disruption by government of traditional, socially functional patterns of tenure in such areas as were set aside for blacks; and the dearth of public service provision by government in these areas. Davenport explores the first and second of these, with Cross adding insight to the latter, while Tapson investigates the third.

Davenport starts by identifying three major historical processes that brought

about the extreme inequality of land distribution prior to the enactment of the body of legislation which currently defines right of access. These were military conquest, division by treaty and reallocation after conquest by state commissions. All three are political processes relying proximately or ultimately on the use of force, as has the superstructure constructed by subsequent administrations. With the surrender of this basis of power and the institution of a non-racial society, these processes will need redress, the more so because, even in terms of European norms, some forms of dispossession were irregular. Davenport points out that 'in inter-white wars it was not normal for the subjects of defeated states to lose land on defeat'.

Attempts to justify racially delineated rights of access on the basis of the 'empty land myth' are now generally discredited, and, although little has been said explicitly about land until recently, the changes that have taken place in a broad range of state policies in 1990 suggest that the 'ideology of territorial segregation' has now also been officially discarded. The greater part of Davenport's article is devoted to a discussion of the legislation which will need to be repealed to give effect to a policy of 'open access'. The most important of these are, of course, the Black Land Act No 27 of 1913, and the Development Trust and Land Act No 18 of 1926 — which preclude blacks from owning or renting land in the present 'white rural areas' — and the Group Areas Act No 41 of 1950 — which limits 'coloureds' and Asians' rights to own or rent land in these areas to those pieces of land owned by them at the time of the passing of the Act.

As Davenport and Budlender & Latsky (in an article to be published elsewhere) point out, the process of repeal will be complex, and it will be important, *inter alia*, to preserve the security of tenure of residents of the present 'black rural areas'. This must be the first step on the road of reform. But in itself it will be no more than facilitative. It will no more bring about the restoration of land dispossessed than a change of government will, in itself, bring about different economic policies. What it will do is open the door officially to claims and to the much more complex questions of verifying and adjudicating between conflicting claims. Although the greater part of the black population is now urbanized, the volume of claims can be expected to be substantial, for, as Davenport remarks, 'popular memories about loss of land tend to bite deep ... the losers remember even when the victors forget'. And, he goes on, 'both sides invent'. There is therefore good 'reason for paying close attention to the historical evidence in the handling of today's problems'.

This identifies one of a number of areas of research that will become increasingly urgent as the process of transition gathers momentum — the need not merely for a broad macro-understanding of how land changed hands, but for a detailed micro-understanding by district and almost by farm. Here is work for a generation of historians. And this, in turn, is only part of the task of gathering information on who is laying claim to what area, on what basis and with what purpose in mind. Without this information, no procedure for adjudicating between claims can operate effectively and equitably. Delineating such a procedure is, of course, another urgent area for research, in this case perhaps primarily for the legal fraternity. Encouragingly, there are indications that research on a number of these issues is being planned or has already begun.

Another avenue of research that is equally important, although different in that it involves gathering data from secondary rather than primary sources, is to scour the literature to learn the lessons of rural restructuring from the many

who have travelled this road before us. Cross is emphatic about this: 'it is crucially important to take full account of the ... literature and research available so that all parties to the political negotiations over the highly incendiary rural land question are adequately informed'. Three of the articles survey the literature and recount the experiences of other countries, to extract the implications for South Africa.

Moll's brief, in an article that could not be rewritten to take account of recent political changes in South Africa (although it has been shortened), was to look beyond Africa to Europe and the Americas. He distinguishes between two basic models of 'milder' land reform, which he characterizes as 'land to the tiller' and 'distributivist' reforms. The former is possible only when there is widespread tenant farming, as there was in South Africa in the early years of this century. As agriculture in the 'white rural areas' is now practised, with blacks long precluded from any form of independent production, Moll argues that 'land to the tiller' redistribution — as envisaged in the Freedom Charter — is by and large no longer applicable. (Remarkably, pockets of black tenants have managed to survive in some areas despite the full weight of the law.)

'Distributivist' reform, by contrast, occurs where large estates are split up into smaller holdings on which households are then (newly) settled. Three instances of this type of reform that have been implemented in the last eighty years are analysed: the American 'New Deal', and the Italian and the Mexican programmes. If there are lessons to be learnt, Moll sees them as being these: as the 'New Deal' and the Italian experiences show, distributivist land reforms can succeed in creating self-employment which brings households up to lower-middle income levels. However, to achieve this, substantial amounts of supportive investment per household are normally required, an argument confirmed in a present-day South African setting by the illustrative estimates made in Section 3.1 of Simkins' article, even taking into account the extensive infrastructure already in place in the areas to be resettled, ie the existing 'white rural areas'. Given the multiplicity of claims by disadvantaged communities on limited state resources, Moll asks whether expenditure of this nature is not inequitable. It also places a tight constraint on the extent of resettlement.

An alternative — as demonstrated in Mexico — is to redistribute land on a far wider scale without much supportive investment, which, in a South African context, Moll argues, would amount to 'a policy of "reserves writ large" '. In Mexico, popular political pressure dictated large-scale redistribution and many poor rural households gained access to land, but the sheer scale of the redistribution made provision of the necessary complementary services impossible. Poverty remained and environmental degradation increased. Moll does not record the effect on agricultural output, but even without knowing this, the lessons for South Africa are obvious.

Fair's article, which surveys seven Southern and East African countries — Kenya, Tanzania, Mozambique, Malawi, Zambia, Swaziland and Botswana (Zimbabwe being covered separately by Davies) — assesses the extent to which rural development has been able to stem rural-to-urban migration. If the problems of urbanization are serious in South Africa, with the years of infrastructural neglect engendered by influx control, they are acute in most of these seven countries, whose urban industrial base is much smaller and whose rural populations are relatively much larger and poorer. In these circumstances, rural development was until recently generally designed more as a counter to urban

migration than as a means of stimulating food production. As the importance of the latter has been realized, so attempts to decentralize industry have given way to policies to improve agriculture's terms of trade with correspondingly positive results for food production.

However, care is needed in applying these principles to South Africa where food production *in toto* is more than sufficient and the problems are more of a distributional nature. There is little need for a general hike in agricultural producer prices (where these are controlled) and indeed little room for it, given prevailing world prices. The need is more to raise the incomes and standards of living of the poorest groups of rural residents — households in 'black rural areas' and farm-workers. The most important way to achieve this is, arguably, to increase the availability both of urban employment and of public services that form part of urban living to those who remain behind in rural areas — piped water, transport, medical and educational facilities, to name some of the most important. Research discussed in Tapson's article shows how much more weight residents of 'black rural areas' attach to services of this nature than to services designed to raise agricultural productivity. All of this should not be interpreted either as writing off the need to assist farmers in 'black rural areas' or as entrenching the present undesirable pattern of labour migration. Neither is correct. What is being stressed here — and which is elaborated on in Nattrass & Nattrass' article — is the importance of evaluating and planning rural development in the light of the overall needs of the country. If this is not done, rural development is likely to be misshaped.

Of the lessons from the seven countries that do seem directly applicable in South Africa, perhaps the most cogent is that attempts to radically alter indigenous tenure patterns generally succeed only in disrupting agricultural production and social cohesion. Fair recounts the negative results of 'socialist' experiments in Tanzania and Mozambique, while Cross does likewise in respect of the 'betterment' schemes imposed in South Africa's 'black rural areas' and of programmes elsewhere in Africa to force the introduction of freehold.

Of all the countries to which South Africa can look for guidance in restructuring, Zimbabwe offers the greatest number of parallels. For this reason, Davies and Reynolds (whose paper could also not be published in this edition) were approached to write specifically about Zimbabwe's experience of rural development — its policies, successes and failures, and similarities to and differences from South Africa.

The composition of the population, the division of land into commercial and subsistence farming areas, and the density of settlement and forms of tenure in the respective areas do, of course, constitute substantial similarities. However, in his opening remarks, Davies cautions against too ready an identification of South Africa with Zimbabwe. Several important differences emerge in the course of his analysis. The first lies in the relative political importance of the Zimbabwean rural populations: they comprise a significantly larger proportion of the total population than in South Africa, they bore the brunt of the war of independence and it was largely on the strength of their support that the present government came to power. Because of the location of the war, there was a good deal of genuinely abandoned or underutilized land in the commercial farming region at the time of independence, so much so that it was reckoned that as much as one third of the land in this region could be resettled without having a noticeable impact on commercial agricultural output. It is debatable how much

genuinely underutilized land exists in South Africa's 'white rural areas', but it is unlikely to be as extensive.

Another notable difference is in the relative size of the pool or residue of farming skills embodied in the black population. This is most apparent from the 1,4 million hectares of commercial farmland operated by small-scale black commercial farmers at independence. In addition, although hard evidence is difficult to come by, it is not unlikely that the state of environmental degradation and reliance on migrant earnings, while considerable, are not as advanced in Zimbabwe's communal areas as in South Africa's, suggesting the relative importance of agriculture in the former. And, of course, in relation to South Africa, Zimbabwe's communal areas are a much larger proportion of total land. This is not to say that a similar pool of skills and interest in agriculture is absent in South Africa, but, at least proportionately, it is likely to be much smaller, and is likely to be found more among the womenfolk, whose status as independent producers needs to be established.

Among the most significant features of Zimbabwe's post-independence rural development strategy that Davies notes are: its two-pronged resettling of small farmers in the commercial farming areas and of upgrading the infrastrucure and supporting services available to small farmers in the communal areas; the offer of a choice of resettlement models to individuals and communities relocating, although some would argue that the range of choice was too narrow; the limited programme of land acquisition by government on a willing buyer willing seller basis with government having first option to purchase, although this was largely dictated by the terms of independence and appears now to be changing; and the extent of influence of pre-independence planning, especially from the Muzorewa interregnum, on post-independence policies.

The success of the post-independence rural development strategy in stimulating small farmer output has been remarkable. Davies quotes estimates showing that more than half of the maize crop is now produced by farmers in the communal and resettlement areas as against less than 10 per cent (of all marketed maize) before independence, information on which Ardington is able to amplify: the same groups of farmers are currently also responsible for more than half of the cotton, sunflower and sorghum harvests. Regrettably, no information is given about the proportion of these crops that is exported or about livestock and horticultural production, but the performance of small farmers to date is encouragement enough for a similar programme in South Africa, even given the difference noted above.

However, there have also been failures and problems, which are no less important to take into account. Perhaps most serious is the almost unabated growth of population pressure in the communal areas with all the negative effects on natural resource conservation that this brings — many effectively irreversible. To some extent, this is a result, ironically, of the very success of the upgrade policy in the communal areas, which, together with the comparative insecurity of tenure in the resettlement areas, the forfeiture of rights to land in the communal areas that goes with resettlement, and the attractions of remaining in one's home community, have made many households reluctant to leave the communal areas.

To some extent as well, it is a result of the limited capacity of government to acquire more land for resettlement. The arrangements for acquisition noted above and the shortage of foreign exchange — of which the export of crops

produced by (mainly white) large-scale commercial farmers is one of the biggest sources — for the purchase of farms, have until now placed tight constraints on the resettlement programme. It would be easy, and most popular politically in the short term, to place the blame for the mounting pressures in the communal areas solely or largely on these constraints, and to rearrange the terms of acquisition to make land for resettlement cheaper to come by. This appears to be the direction of the new policy announced in July 1990 by the Minister of Lands, Agriculture and Rural Resettlement. It remains to be seen how far it will be put into practice and whether the benefits in terms of land acquisition will outweigh the probable costs of lost agricultural production and foreign exchange. Moll's account of the lessons from Mexico come to mind.

Arguably, however, the most important reason for the rising pressures in the communal areas is the failure of the Zimbabwean government's industrial policies. After an initial burst of growth in the early 1980s, the performance of private commerce and industry has been disappointing, primarily, it would appear, because of the inhospitable climate for investment created by state policies. The potential of the resettlement programme to generate full-time employment is almost certainly smaller than that of private commerce and industry, at least in the medium term. A policy of expropriating assets in commercial agriculture at substantially less than market value is hardly likely to encourage investment in these sectors. This, rather than lost agricultural production, may be the main cost of the new policy.

Again, this has obvious lessons for South Africa, not the least of which is to emphasize the importance not of rural development for urbanization, but of industrial growth for rural development. Paradoxically, the most important element of a multi-pronged strategy to address rural restructuring — and 'land hunger' in particular — is the growth of jobs in the secondary and tertiary sectors, that is, mainly in the cities.

Davies' article shows up several other problem areas which ought not to be overlooked. These include what he calls 'peri-urban ruralization', or the growth of unplanned small-scale cultivation on the perimeter of cities, bringing with it, on the one hand, jobs and on the other environmental degradation. He also points to the limiting effects of a shortage of sufficiently qualified and appropriately trained rural planners and to the importance of 'national policy formulation [which] should precede the making of plans and still more their implementation'. However, he goes on, 'a run-in time of perhaps five years might well be needed for basic research, evaluation and policy making before effective national plans can be drawn up within the context of an entirely new dispensation'. Yet it is doubtful whether such a programme can be started before the nature of the new dispensation becomes clear at the conclusion of negotiations, and it will be difficult to postpone major decisions in a climate in which the incoming government will be required to put its stamp on the country, if not actually perform miracles.

One other observation to be made about rural restructuring, not only in Zimbabwe, but in all of the other countries surveyed, in Africa and beyond, is that in no instance is there evidence that land was redistributed for any purpose other than productive agricultural use. Whatever the strength of historical claims, if claimants cannot demonstrate a supportable commitment to using land with significant agricultural potential for productive agriculture, the nation cannot afford to grant the claim.

However, what appears rational to some will not appear rational to others, rationality from an economic or technical point of view being distinct from, and often not congruent with, political rationality. What are the views of the major black political groups? Lodge's article — which, like Moll's, was written in 1986 and could unfortunately not be substantially revised for publication — explores what he identifies as 'the three most influential approaches to rural and agrarian issues within organized African politics'. These are represented by the policies of Inkatha; the black consciousness grouping, including the National Forum, Azapo and (although the article is not entirely clear about this) the PAC/PAM; and the Freedom Charterists, that is the ANC, UDF/MDM alliance.

Of the three, Inkatha's approach is most conservative, reflecting its position as a governing party which is obliged to implement its policies, its predominantly rural constituency and its 'methodical analysis of the present characteristics and constituents of agricultural society'. It favours a gradual transition of rural tenure systems 'towards the registration of individual title', a substantial programme of spending on rural infrastructure, and the setting up of a National Land Commission to purchase land for settlement by small farmers. Significantly, Lodge feels that this approach 'is likely to be representative of a broader section of black public opinion than that represented by Inkatha's own ethnic support base'.

Similarly, he argues that the position adopted by the black consciousness grouping is probably more widely subscribed to than the rather slim membership of the National Forum/Azapo suggests (although the unbanning of the PAC would have greatly increased the size of the formal membership). Anyone sharing 'a utopian, anti-capitalist [view] especially popular among young and educated black people' should be placed in this group. On this basis, it could be asked whether the SA Communist Party should be included, despite its close links with the ANC. The central planks of a black consciousness policy would appear to be repossession and the effective nationalization of land, as part of an economy-wide transition to socialism, although plans for the use of land in such an economy do not seem to have been clearly formulated.

By comparison with its two rivals, the essence of the ANC alliance's stance is most fluid. The only authoritative statement on land and agriculture that Lodge can identify is contained in the Freedom Charter and this has been subject to considerable changes in interpretation over the years. It is broadly anti-large-scale commercial farming and in favour of a high level of state intervention, but what this means in terms of ownership, occupation and organizational structures is not clear.

With negotiations ahead, a serious effort to define policy not only on land and agriculture, but on all of the major aspects of the economy, is now being undertaken. Whatever policies are defined, they will almost certainly be subject to compromise during negotiations. Lodge concludes a brief updating addendum by observing that 'for a movement whose harsh history stretches over nearly eighty years of battes for survival, [compromising to the point of] substituting administrative power for popular legitimacy may well seem a poor exchange' — especially with the PAC and partners waiting in the wings. This provides a pointer to the nature of ANC land policy: political necessity dictates the inclusion of at least two basic elements, over and above the inevitable repeal of racially discriminatory legislation, namely a broad programme of support for small farmers (which the National Party would probably not find unaccept-

able) and, as part of this, at the minimum, a limited programme of state land acquisition.

This raises the issue of what categories of land the state might wish to acquire. Bearing in mind the requirement, noted earlier, that land be used productively, one of the logical categories would be underutilized land. Davies' article confirms this in Zimbabwe. Another which is likely to be unfavourably regarded is land owned by 'absentee landlords'. But how extensive are these categories on the ground? A brief survey carried out by Fényes & Van Zyl, as part of the research programme of the PSC's Working Group on Rural Development, attempted to get a feel of the answers to this question. The article by these two authors gives details of the results. Three caveats should be noted: firstly, the survey had, of necessity, to be limited; secondly, it was carried out shortly after a prolonged period of drought in a summer rainfall area; and thirdly, it was not possible to cross-check the information provided by farmers against a second source. None of these necessarily invalidate the outcome, but it should nevertheless be treated with caution.

Given these qualifications, the main findings were that there was relatively little underutilization but that the incidence of farms occupied only by blacks was extensive, especially in the Orange Free State, parts of the Transvaal and where farmers operated on a part-time basis. Except in the case of part-time farmers, almost all of the farms concerned formed part of a larger farming unit with the owner residing on another section of the farm. Some 'illegal' occupation of farms by squatters was reported mostly with the owner's consent and mostly purely for residence, although some subsistence farming was recorded in parts of the Orange Free State. Some 'illegal' occupation for 'historical reasons' also emerged, referring probably to long-standing labour tenants. Most farms that were unoccupied by whites were supervised on a day-to-day basis by resident black workers, whose managerial duties were said to be limited.

If these results are correct and representative, there would appear to be little genuinely underutilized land in the 'white rural areas'. Fényes & Van Zyl offer as corroborative evidence that production in the districts where the incidence of farms unoccupied by whites was highest has more or less kept up with the national average. However, a more extensive study conducted recently for the Development Bank of Southern Africa found intensive underutilization of land with arable potential particularly in Natal and in the Eastern and Southern Transvaal, where only about half of the potential was being used (McKenzie *et al*, 1990). This does not imply underutilization as popularly conceived, that is as semi-abandonment, rather, that arable land is being used for pastoral purposes. There are, of course, many instances where the reverse takes place.

What this debate does is emphasize how difficult it is to define and measure underutilization accurately. Perhaps the best method, in principle, is to let farmers do the identifying themselves by imposing a land tax based on agricultural potential. Those genuinely underutilizing land would then be obliged either to increase production or sell up. This is certainly an option that warrants investigation — which is being done in Zimbabwe — but it should be said in advance that for a land tax to operate as intended, considerable technical difficulties need to be overcome.

There is also a sense in which expending a great deal of effort to identify underutilized land may be misplaced. As Fényes & Van Zyl point out, most of

the land that is underutilized has acquired this status for economic reasons. McKenzie *et al*'s study throws some doubt on this but their findings are not necessarily incomparable. If a serious attempt is to be made to encourage the growth of a class of small black commercial farmers in the present 'white rural areas', then the focus should be on land of more certain potential.

While acquisition by the state could — and, as pointed out earlier, will almost certainly have to — form part of the process of enabling small farmers to gain access to appropriate land, market forces are also likely to help bring this about. Ardington in his article discusses some interesting private sector initiatives, motivated partly by market forces, that could be undertaken. Elsewhere, I have argued that, given the removal of racial restrictions on access, various forms of tenancy may begin to re-emerge (De Klerk, 1990). To take one example that arises from Fényes & Van Zyl's findings, where supervision of labour is difficult — which is very likely when owners do not reside on farms or do so only on a part-time basis — the logical solution is for owners to arrange to share profits with workers or to enter a share tenancy contract. Market forces are responsible both for the increase in the size of farming units — of which farms not resided on by their owners are a manifestation — and for the increase in the number of part-time farmers, and can be expected to extend these trends, in keeping with most other industrializing countries.

A post-apartheid government should bear this in mind in formulating land policy, and in particular should not condemn tenancy as undesirable *per se*. It is an important access channel for farmers without substantial capital resources — one that places few burdens on the state — and is widely practised in, among others, Western Europe and North America. A better option might be to look for ways to make it more attractive to both parties. Similarly, it would not seem sensible to condemn part-time farming as undesirable, if only because many incoming small farmers are, like existing part-timers, likely to find that it is a rational way to enter and stay in farming, as Van Zyl (1990) shows.

Two other issues of importance emerge from Fényes & Van Zyl's discussion. The first is the need to find constructive ways of using economically marginal and submarginal land that is acquired by the state for resettlement, which in turn raises a host of issues which cannot be entered into here. The second is the need to take note of the core of potential small-scale commercial farmers that exists among farm-workers, particularly among those in supervisory positions. If the advanced state of environmental degradation and of reliance on migrant earnings has decimated the number of farmers with this potential in 'black rural areas' (see discussion of Davies' article above), some of the trends in large-scale commercial farming are producing a countervailing effect.

Almost all of the articles in the collection are thoroughly empirical in their approach. Yet all empirical analysis has theoretical underpinnings which are usually left unstated and are sometimes not adequately appreciated. Nattrass & Nattrass give a succinct overview of the main bodies of development theory,thereby spelling out the underpinnings implicit in the various other contributions, or at least such of them as are primarily economic analyses.

The brief given to them was to explore the impact on rural development of political-economic relations between South Africa and the 'homelands'. Not surprisingly, they conclude that the outstanding characteristic of the relationship is the almost total dependence of the latter on the former. What one judges to

be the effects of this on the prospects and formulation of policies for development in the 'black rural areas' depends on what theoretical perspective one adopts.

Nattrass & Nattrass outline three such perspectives: the neo-classical, the structuralist and the Marxist. The essence of the neo-classical approach is to liberate the forces of the market, which, Nattrass & Nattrass argue, has produced relatively little in the way of benefits for the poor — who are the majority — in most underdeveloped countries and regions. Furthermore, 'the policy of freeing the market in as many areas as possible may not only be normatively suspect but also theoretically unsound *within* the bounds of neo-classical economic logic. Rather, a strong case can be argued (in terms of the neo-classical theory of the second best) that in a world of uncertainty, with the persistence and predominance of precapitalist relations of production and widespread poverty and inequality, some active government intervention and planning is more than sound ... The structuralist [approach] ... starts off from this basic realization'. In terms of this view, 'the market certainly has an important part to play [in that the economy is market-based], but it is also kept in its place by planners'. On this definition, most of the contributions to this collection are implicitly structuralist. The Marxist approach advocates a radically different degree of intervention, namely the entire displacement of the market economy by planning.

Given that intervention is necessary, what strategy for intervening is most appropriate? Nattrass & Nattrass outline and evaluate, *inter alia*, the 'integrated rural development' option and what they call the 'macro approach'. The former is attractive in its completeness but, where tried, has almost always failed, chiefly on account of the volume of funds needed and the premium placed on careful planning and able administration. Invariably, government is unable to meet one or more of these requirements. What, in Nattrass & Nattrass' opinion, ultimately rules out this option in South Africa is that 'a century of underdevelopment has left the economic base of the homeland areas severely limited and at present it is so fragile that it offers no real foundation for a programme of integrated rural development'.

The 'macro approach', while prescribing no specific policies for rural development, does have the advantage of situating the need for and requirements of rural development in the context of the overall economy, where the opportunity costs and benefits of alternative rural development programmes can best be seen and evaluated. Adopting this approach, Nattrass & Nattrass argue strongly that the bulk of development resources should be channelled into the cities, the primary benefit for rural areas being the potential for relieving population pressure and scope for agricultural development and land rehabilitation that this creates. Inasfar as they see it possible to fund programmes of expenditure within the 'black rural areas', their approach is essentially welfare-oriented. By this they do not mean recurrent social security hand-outs, rather that available funds should, in the main, be used to improve social infrastructure, the water supplies, transport, educational and medical services and so on, referred to in the discussion of Fair's article and elaborated on in Tapson's. This issue is taken up again by Simkins, by Ardington and by Fényes, Van Rooyen & Vink.

The two main themes running through Cross's article are the failure and negative consequences of attempts to implant what one might call 'Western' notions of tenure into traditional agriculture in Africa, and its complement, the

need to build on indigenous tenure systems and to assist them to transform themselves.

Reference to the first of these themes is to be found in Davenport, who outlines at some length the restrictive effects of 'Trust tenure' imposed by the Development Trust and Land Act of 1936. These include the limitations placed on the size of holdings, the rights of women and the rights of succession, disinheritance and testamentary bequest in respect of land. Cross continues by describing the destructive effects of 'betterment' planning on community organization and social support structures and its promotion of landlessness, all without raising agricultural productivity. Freehold, when implanted from above, has had similar consequences and has generally been so administratively cumbersome and so poorly understood that, informally, the tenure system has tended to revert gradually to its original form of its own accord. Yet all of this does not mean that freehold *per se* is inappropriate, only that the necessary conditions for absolute freehold to help the rural African economy — a reasonably strong local economy and a healthy income distribution - will follow rather than precede a successful programme of rural development'.

While the achievement of such a successful programme hinges only to a limited extent on the tenure system, an inappropriate system is likely to make success impossible. Cross argues forcefully for a policy of 'renovating indigenous tenures' which, she asserts, are generally flexible and secure, and elicit initiative, as well as being cost-effective and supportive of community structures. However, this approach 'should not be confused with romantic notions about traditional societies and their preservation. It begins with the assumption that tenure change is necessary and desirable, but seeks financial and social economies in change by building on existing institutional arrangements to the extent that this is practical'. If greater agricultural productivity has not emerged, factors other than the tenure system are responsible. Given the risky and demanding nature of agriculture, the many other difficulties which Tapson identifies, and the relatively low and irregular returns — characteristics to which many a white farmer will attest — it has been rational for most households to view farming as no more than a supplementary source of income.

This situation and perception of agriculture, Cross feels, is likely to change only slowly, even with a marked improvement in state assistance. 'The vital implication for development is that exclusive full-time agriculture is not in the foreseeable future likely to be a feasible development strategy for South Africa's black rural areas. De Janvry's ... argument that planned agrarian development is rarely accessible to anyone outside a relatively narrow rural elite applies here. For agriculture to contribute effectively to development, it will have to find its place in an economy dominated by migrancy ... A realistic agricultural strategy for the bulk of the rural population will mean upgrading part-time farming, and treating it as the legitimate object of state assistance. [Furthermore,] there is no reason why such a strategy needs either close central planning or freehold land title'. This accords with Tapson's findings and, in particular, with the 'farmer support programme' described in Fényes, Van Rooyen & Vink's and in Simkins' articles. It also stresses the need to support rather than condemn part-time farming, which emerged from Fényes & Van Zyl's analysis, and this can hardly be done for black farmers while practising the reverse for whites.

Although Tapson's approach to analysing rural development is set firmly in

a neo-classical mould, that is that 'its basic assumption is that a community, and the individuals within it, act rationally to maximize their own utility, subject to a set of limiting constraints', the tone, content and conclusions of his article are not of the nature discussed by Nattrass & Nattrass as being unhelpful to policy formulation. On the contrary, they are largely consonant with the findings and recommendations of most of the other authors. Methodology does not always predetermine outcomes, which is helpful to bear in mind as we are, many of us, prone to throwing the baby out with the methodological bathwater.

The communities and individuals which Tapson discusses are those resident in South Africa's 'black rural areas'. The utility function he assumes is very similar to that of urban people, making their needs similar as well. The survey findings he describes bear out this assumption, and help define infrastructural investment priorities (see discussion of Fair's article). The constraints he identifies are divided into two major categories: technical and human. Most of those falling into the first category are well known — lack of infrastructure, credit, access to physical inputs, among others — and are discussed systematically in articles by Bembridge which formed part of the PSC Working Group's investigation and which have already appeared in this journal (1987, 1988). One popular notion about tecnical constraints that Tapson corrects is that the 'black rural areas' are less well-endowed in terms of soil and climate than the rest of South Africa. Although conditions vary from area to area, on balance the respective regions have fairly similar natural agricultural resources.

Tapson focuses more on the human constraints and in particular on the bureaucracy in the 'homelands', which, he argues, measures up poorly to the needs of rural development. His investigation of the reasons for the inefficiency of such administrations in planning and implementing rural development — based on the evidence of several reports delivered to the Working Group — leads to the conclusion that their incapacity is endemic to the political structure not just of the 'homelands' but of the country as a whole. The release of technical constraints is therefore unlikely, on its own, to bring about significant rural development. To release the constraints of the bureaucracy means to challenge existing power structures. By definition, it has not been in the interests of past South African governments to do so, and it remains to be seen whether governments of the future will view this matter any differently.

It does not do justice to Tapson's wide-ranging article to mention only two others of its many insights, but several have already been covered in the discussion of other articles, and it would be superfluous to raise them again. The first of the two issues is the need he identifies for a common set of conservation legislation throughout South Africa. Whereas, in the present 'white rural areas', there is a sound body of conservation legislation which is applied frequently in the breach, in the 'black rural areas' there is hardly any legislation at all. Laws on their own, will, of course, not stop natural resource degradation in these areas. Arguably, rapid urbanization will do more but this does bring to the fore several important concerns. The first is the need to start to view the present 'white' and 'black' rural areas as an integral unit. The second is the finding from an opinion survey conducted by Harrison for the PSC Working Group that many white farmers would be prepared to accept black neighbours, provided that 'farming standards', involving, crucially, conservation norms, could be kept up. While it is certainly true that many white farmers do not adhere adequately to these norms themselves, this is a valid concern which we ignore at our collective peril. The third concern is related, and that is the need

to allocate substantially greater funds to education for and the enforcement of natural resource conservation that will emerge once the integration of the two farming regions starts to become a reality. (Simkins' article takes account of this need.) It will take considerable political will to do this, given the demands of a new South Africa.

The last of the issues arises from the very unequal distribution of income and hence of access to food in South Africa remarked on earlier (see discussion of Fair's article). The country as a whole produces a substantial export surplus, but there is still widespread malnutrition, particularly in the 'black rural areas' (Wilson & Ramphele, 1989). An important prong of any rural development strategy should therefore be to help increase subsistence agricultural output and consumption. But, as Tapson points out, an effective support system for this form of production is much more complex than for industrial crops, because food needs to be grown, processed, stored and eaten over as long a period as possible, not only grown and marketed at one point. Developing such a support system means putting more resources into, and a new emphasis on, locally based research and development efforts. (Again, Simkins' article caters for this need.)

This brings us to the two articles that focus specifically on the strategy and instruments for reform, those by Fényes, Van Rooyen & Vink and by Simkins. Both take as starting point the repeal of all racially discriminatory legislation and the decision, in principle, to implement a programme of 'affirmative action'. It is in their approach to the content of such a programme that they differ.

Fényes, Van Rooyen & Vink begin by considering a number of possible techniques of agricultural problem-solving, and outline the range of factors — from biological to economic to institutional — that need to be taken into account to arrive at an acceptable solution in terms of each. The importance of both efficiency and equity as criteria is noted, as is the frequent trade-off between them. In respect of the latter, the authors argue that policy should concentrate on creating equality of opportunity rather than equality of outcome.

They go on to give examples of potential areas for affirmative action and point out that virtually the entire agri-support structure is at present geared towards the needs of large-scale, capital-intensive agriculture. Some categories of farming are, however, ineligible for certain forms of state aid. Among these are market-gardening and part-time farming, both of which offer likely ports of entry into commercial or semi-commercial agriculture for black farmers. This highlights the need to look beyond laws, institutions and procedures that are overtly racially discriminatory to identify other, less obvious forms of bias that are likely to make entry more difficult, particularly biases against small farmers and tenants. Fényes, Van Rooyen & Vink provide a list of laws which require investigation in this respect. To this one should add the structures of control of the many supporting institutions, marketing boards, co-operatives and so on. They end on a note of confidence, that it should not be necessary for restructuring to occur at the cost of economic growth. May history prove them to be right!

Simkins' paper, based on memoranda submitted by a number of consultants to the PSC Working Group, undertakes the essential task of investigating the budgetary implications of alternative restructuring strategies. Although the figures quoted by Simkins are only the roughest of estimates, they do give a

feel of the likely order of funding involved, and thereby an idea of the feasibility of the respective alternatives.

The first set of estimates illustrates the costs of what is often referred to as a 'project' approach to rural development, that is, schemes which are designed to settle a relatively small number of farmers and bring them up to sustainable full-time farming status. (Moll's description of the American New Deal settlements is an example.) Two such schemes are described, the first estimating the cost of converting large-scale arable farms into small-scale, state-owned, tenant farms. The capital cost per farmer would be of the order of R270 000. By comparison, a second such scheme, involving much smaller but much more capital-intensive units, was costed at about R200 000 per unit. Both schemes appear to be far more costly than the 'Model A' which has been so widely adopted in Zimbabwe. (This is based on the traditional pattern of making a private arable plot and access to communal grazing available to each household in a newly established village.) It would be helpful to know the costs of the latter, and the expected output and net income per household of the respective schemes. The sheer capital outlay of the two outlined in Simkins' article would appear to limit the extent of their applicability, as is acknowledged, perhaps for different reasons, in the remark that the numbers settled would 'not be enormous, hundreds rather than thousands'. On this basis, the project approach may appear too elitist to an incoming egalitarian government.

An alternative strategy, normally characterized as the 'programme' approach, aims to assist a far wider group of small farmers on their existing farms. This, by definition, restricts its applicability to the present 'black rural areas', although elements appear to be adaptable to land newly acquired by small farmers, whether on their own or through the state. The support extends to 'a comprehensive institutional framework [to provide] ... finance, training ..., research, input supply, mechanization, marketing services, etc ...'. Programmes of this nature have already been initiated by the Development Bank of Southern Africa in the 'black rural areas' and it is regrettable that no details of their financial implications could be included.

A third approach, detailed more extensively by Simkins, is to reorientate the state agricultural budget. This is more in the nature of a complement than an alternative to the other approaches. Simkins lists the essential elements of the UF/PSC proposals, gives estimates of their expenditure implications and matches these up with revenue sources. The latter include not only recurrent expenditure (for undertakings requiring recurrent funding) but also capital market borrowings over a period of years (to fund a series of capital investments).

To give some sense of an appropriate order of expenditure priorities, a number of criteria besides straight rand costs are considered, such as the number of beneficiaries, the number of jobs created and the degree of self-sustainability. The individual proposals are then evaluated very roughly in terms of these criteria and an equally rough ranking of priorities is reached.

Although the proposals are not detailed enough to imply a precise pattern of state spending, the exercise is fruitful both because it is an example of the kind of calculation that is going to have to be done and because it shows that 'with a modest degree of extra state spending [5-10 per cent of existing budgetary] allocations on recurrent and once-off non-capital outlays complemented by commercial financing, considerable progress can be made towards improving [black]

rural output and incomes. [However], a great deal of further study at the time of legislative change will be needed to identify the most productive investment opportunities more precisely'.

An implicit assumption in many of the articles is that rural restructuring is a matter for government to initiate and carry through, albeit with the participation of the individuals and communities concerned. And so to a large degree it is. But it would be unjustified for the corporate private sector and private large-scale farmers to use this as a reason for contributing nothing or negatively to the process. As Ardington points out, 'it is in their [own] interests to see a much wider participation by blacks as principals in the [rural] economy'. To this end, he devotes the greater part of his article to exploring ways in which the private sector can assist. This, it should be stressed, need not and cannot be expected to occur with pure altruism as the motive. The less direct political economic benefits aside, there are also very direct short-term benefits to be gained and these are more likely to be the driving force on the ground. Self-interest need not always manifest itself as a zero-sum game — an observation which proponents of the neo-classical fundamental theorem of exchange will note with pleasure.

As a sugar farmer of long standing, Ardington illustrates his argument chiefly by referring to developments in the sugar industry over the past 15 or so years. During this period, more than 30 000 small cane growers have emerged in 'black rural areas', who now produce more than two million tons of cane annually. Their emergence has been assisted in a number of ways by the private sector, through the provision of production credit on the basis of a lien against the crop (much as co-operatives do for white commercial farmers), and through assistance with the provision of infrastructure and transport and, in some cases, with ploughing and planting. While there have certainly been elements of paternalism to this, what is also certain is that the milling companies and other farmers supplying the mills stood to gain directly, in that it enabled the mills to maintain a viable volume of throughput at a time when increasing areas of cane-land were being put to other uses, usually timber production.

Looking to the future, Ardington notes that, with the repeal of the Land Acts and the Group Areas Act, large landowners will have the opportunity of subdividing and leasing or selling land to small cane producers. Again, the motives need not be altruistic, because, as World Bank experience has shown, sugar, of all the industrial crops, is best suited to such an arrangement, with production being undertaken on contract (Binswanger & Elgin, 1989).

One other potential area for private sector intervention identified by Ardington concerns 'villagization', not as in the discredited 'betterment' programmes in 'black rural areas', but for farm-workers in the 'white rural areas'. Villages for farm-workers appear to have a number of advantages, *inter alia* that they would make it far cheaper to provide essential services, would make it easier for government to take full responsibility for and improve rural schools, and would reduce or eliminate the dependence of workers on farmers for housing, thereby either releasing farmers' capital for re-investment or offering them the opportunity to invest in a readily saleable asset, ie village housing. The provision of finance for a programme of this nature would appear to fall squarely into the area of operation of the Urban Foundation, and, in the long run, might open up a new market for building societies. A further positive spin-off would be the creation of off-farm employment opportunities.

Ardington concludes by pointing out that 'to place too great an emphasis on reparation through land resettlement is to concentrate on what has become a very small part of the economy'. Even if a substantial percentage of rural land is redistributed and settled, agriculture cannot productively accommodate more than a relatively small and declining part of the population. It will not be possible to satisfy many land claims through land reform. Arguably, it will be urban, not rural growth — or land reform — that will be the most important determinant of the nation's capacity to address 'land hunger'. This is where the Urban Foundation and the Private Sector Council can make their greatest contribution to rural development.

Finally, I wish to thank Prof Charles Simkins and Dr Nick Vink for their help and patience in editing this collection.

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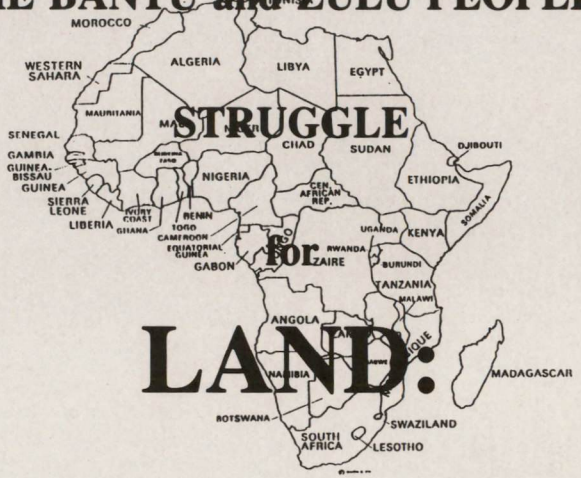
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RUDOLPH DANIELS, Ph.D.

THE BANTU and ZULU PEOPLES' STRUGGLE for LAND:



The Basis of the Social Revolution Sweeping the South African Republic

Edited by WILL and DOROTHY BURNHAM LISSNER

New York: **ROBERT SCHALKENBACH FOUNDATION**

These two articles concerning the land question in the Republic of South Africa are by Rudolph Daniels, Ph.D., assistant professor of economics at Florida A & M University. They are reprinted with permission of the *American Journal of Economics and Sociology,* in which they first appeared.

The *Journal,* a pioneer in the publication of interdisciplinary research, was founded in 1941 to advance solutions to the problems of democratic capitalism. Will Lissner, founding editor, retired in 1988. Dorothy Burnham Lissner served as assistant editor for many years.

The Robert Schalkenbach Foundation, a sponsor of the *Journal,* was founded in 1925 to promote economic justice and abolish poverty by reprinting the works of Henry George and others that deal with land reform, tax reform, free competition and free trade at home and abroad.

FOREWORD

Many concerned, thoughtful observers in the industrial nations, reading or hearing about the social revolution in the Republic of South Africa, conclude that it is merely a conflict between primitive tribesmen and the sophisticated people who are products of Europe's advanced culture. Something analogous to the conquest of Indian land in the Americas by colonists from the European empires.

But Dr. Rudolph Daniels of Florida A&M University has made an investigation which shows that it is the land question, the agrarian land question, the issue of the ownership and distribution of the republic's agricultural land, that is the basis of the turmoil in that country.

The land involved had once been owned and used by the indigenous inhabitants of South Africa, predominantly by the Bantu and Zulu tribes, which distributed it according to a traditional form of tenure that assured every member of a tribe an allotment for the subsistence of his family, sometimes subject to an affordable tax to the head man or village chieftain.

Then the Dutch settlers alienated the Bantu and Zulu from their land, just as the nobility and aristocracy had done in Britain, Ireland, France, Germany and the United States. This act of the Dutch eventually enabled the 6.5 million whites to subject the 24 million blacks to wage slavery. It also provided a mass of cheap labor as the republic developed and became one of the most industrialized nations in the world.

Now the Bantu and Zulu are agitating to end their wage slavery. It is, in truth, a situation which is not a new or local problem. A century ago, the American economist and social philosopher, Henry George, pointed out that "the land question is nowhere a mere local question: it is a universal question." In socialist as well as capitalist countries people are rebelling against the same wage slavery George showed is generated by the monopolization of the land and the earth's other resources.

Through intensive research, Professor Daniels has found that what has been going on in the Republic of South Africa is the same process that has gone on in many nations of the world — the dispossession of people from the land, which forces these people into wage slavery. Thus, denied access to the earth and its resources, people must then work in occupations where they must compete desperately for jobs. And when they lack education and trained skills they must accept marginal wages, close to the level of subsistence.

One of Henry George's enduring insights is that wage slavery is the lot of the producing classes, especially hitting hard the marginal worker with limited education and skills. In the course of the business cycle as the economy moves from slumps to booms and inevitably back to slumps, causing lay-offs, wage cuts and bankruptcies, people acquire a great fear of deprivation, loss of income and wealth and in some case even impoverishment.

Under Dutch and English settlement South Africa was in the earlier stages an agricultural country. Its provinces were colonies of European empires, whose land ownership policies produced extreme maldistribution and concentration of land ownership. More recently, the republic became the only nation in the world to distribute land on the basis of racial segregation, "apartheid," as Professor Daniels notes.

Despite industrialization, all but 15 per cent of the land is still devoted to farming. But ownership of that land has become so concentrated, Professor Daniels finds, that just 3,500 whites control more than 40 per cent of the farmland. A monopoly within a monopoly — within a monopoly. In the Republic of South Africa, the land monopoly is a hydra-headed monster.

South Africa has a lesson to teach us, a lesson pointed out many years ago by Henry George. And he also pointed out the solution — reform of the property tax to untax improvements and to recover nearly all the economic rent of the land by taxing the site. This same principle can recover — for public use and benefit — the economic rent of farmland, forestland, mineral deposits, water resources, broadcast licenses, satellite privileges, every type of the earth's resources. These tremendous revenues, if substituted for present taxes, can end the latter's distortion of economic decisions that make the economy inefficient and unstable. These revenues can also end the tax burdens of laborers and other members of the producing classes.

As Professor Daniels points out, the advance of industrial technology has made many laborers in South Africa redundant. National economic policy is aimed to push the masses of unemployed back to the arid lands called "the homelands," the only land blacks are permitted to own, to eke out the barest living or starve.

Is there a remedy? We, the editors, believe, with Henry George, that there is. Ironically, South Africa was one of the first States to apply the only policy that would establish equal opportunity to own and use the land, the only policy that will continually redistribute the land to those who can make the best use of it, to make it available to all the people because no one would be able to hold land out of use or in less productive uses. That policy is land value taxation, a tax instrument indissolubly linked to the name of Henry George. Unfortunately, however, the South Africans only applied it to a few local areas.

Taxation of the land holder according to the market value of his or her land would permit use of another public finance technique associated with George — use of the revenue to eliminate disincentive taxes on laborers and other producers, and on savers and investors and other capitalists.

In advancing these ideas the editors are presenting viewpoints that are strictly their own and do not necessarily reflect those of Professor Daniels, who conducted his investigation, not with the idea of proving anything but with the strictest scientific objectivity. Nor do the ideas necessarily reflect the viewpoints of the publisher, the Robert Schalkenbach Foundation. But we editors are allowing ourselves to reiterate our belief that South Africa has already applied

the principles of land value taxation to urban land in several cities. In Johannesburg and Pretoria, for example, both cities tax ("rate") only the land value, not the value of the buildings or other improvements in or on the site. This has given great incentive for the improvement of property. And a number of South African economists are proponents of socializing the economic rent of land and freeing improvements, and other forms of capital, as well as labor, from taxation.

Most land reforms have failed because they consisted of mere land distribution, programs which could only temporarily relieve landlessness. Land value taxation, on which Johannesburg and Pretoria have made a start, coupled with tax reform, could end the land monopolization that has produced dissent, rebellion, even social revolution in South Africa. These policies could spur continuing and stable development of industry as well as agriculture, so that more jobs in industry would be available for those who prefer them — farming, even in small holdings, is a vocation, not a mere occupation — and a perennial economy of abundance could be established in which all could share.

Of course, much more change would be needed. As in other advanced countries, South Africa needs to bring public expenditures under public control, lest politicians waste public revenue on programs that enrich only themselves and their friends.

Another problem that Professor Daniels points out, is the practice of some tribes among the Bantu and Zulu peoples of holding their wealth in the form of cattle, leading to overgrazing and the continued spread of the country's arid areas.

South Africa's social problems are indeed a challenge to the country's anthropologists, economists, sociologists, political scientists and social philosophers. But the country has a community of scholars whose voices, it is to be hoped, will one day be heard.

We, however, should refrain from self-righteousness. The original American settlers of Spanish, Dutch, English and French origin pushed the 5,000,000 American Indians in the area of the United States, back in pre-Columbian times, into reservations that also consisted mostly of arid lands.

South Africa's Gethsemane is serving a transcendent purpose, bringing to the attention of the world that social science has solved the land question and it only remains for rational men and women to institute the solution.

Will Lissner
Dorothy Burnham Lissner

The Nature of the Agrarian Land Question in the Republic of South Africa

By RUDOLPH DANIELS*

ABSTRACT. Most of the *land* in *South Africa* is dominated by 4.5 million Whites. A tiny fraction of this key resource is designated for *Black* occupation in Black townships in *White* South Africa and for Black ownership in the ten "*homelands.*" Several interrelated factors account for the lop-sided *land distribution* that exists in South Africa. The two most important factors are the removal of native occupants from the majority of the land, accomplished by early *Dutch settlers,* and *legislative* measures that were designed to guarantee a White-controlled *economy* and foster *economic development* by assuring an abundant supply of disenfranchised and cheap black *labor.* The extent of the *inequality* in the land distribution suggests that, from the viewpoint of *ownership and control,* Blacks were better off prior to 1652 when the first Dutch settlers arrived at the *Cape.*

THE TRANSITION from a tribal or feudal economy into an industrial economy has occurred in some cases through a process that involved the separation of the majority of the population from their agrarian ties to the land. England, with its two enclosure movements in the 16th century and between 1770 and 1848, is often cited as an example of a country in which this process occurred. Small farmers were removed from their small plots, their land enclosed by fences or hedges, as large land owners responded to the high price of wool by raising sheep.[1]

The existence of a cheap labor supply also is essential to the transition from

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a tribal economy to an industrial one. This factor, together with the separation of the majority of the population from their dependence on the land, characterized South Africa's early industrial development. However, the transition which occurred in South Africa must be considered unique from that which took place in other nations. In part, this is because of the manner in which the races were separated from the land, the degree to which this separation occurred, and the finality of the separation.

Indeed, South Africa is the only country where private ownership of land depends upon color and, in the main, is the legal right of only a minority of its people—the Whites, Asians (Indians) and Coloreds.[2] Although Indians and Coloreds are allowed to own land, zoning ordinances confine them, like Blacks who live in White sections of South Africa (here-in-below referred to as White

TABLE 1

LAND USE PATTERNS IN SOUTH AFRICA, 1980

	Number in Million Hectares[a]	Percentage of Total
Agriculture	103,350	85
Forestry	2,650	2
Urban Areas	2,000	2
Nature Reserves	3,000	2
Other	10,000	9
Total	122,000	100

[a]A hectare is a measure of area in the metric system equivalent to 2.47 acres.

Source: Jill Nattrass, The South African Economy: Its Growth and Change, (Cape Town: Oxford University Press, 1981), p. 4; 1980 Abstracts of Agricultural Statistics, Division of Agricultural Economics and Marketing, Pretoria, 1980.

areas), to separate locations apart from White areas. Given the limited data available and the scant amount of literature on this issue, this paper will (1) examine the agricultural distribution of land between Blacks (Bantu) and Whites (Afrikaners), (2) analyze the agricultural potential of the agriculturally-based homelands—the only land Blacks are permitted to own, and (3) discuss, in particular, historical events and legislative measures that engendered the prevailing distributions.[3]

I

Overview of the Racial Distribution of Land

IT IS WIDELY KNOWN that the distribution of land between Black and White South Africans is substantially unequal. But the extent of this inequality remains an

issue worthy of consideration because of its adverse effects on the socioeconomic and political status of the Black majority population who imperil the stability of the White minority regime. The land issue is indeed one of South Africa's most complex and sensitive structural problems. Several factors account for this: (1) the denial of Blacks who live in "White-occupied" South Africa the right to private ownership of land; (2) apartheid policies that, for social, economic, and political reasons, have relegated the majority of Blacks to areas referred to as reserve areas or "homelands" on a quantity of land incapable of sustaining the population; (3) the confinement of the greater percentage of legal Black residents of the White occupied sections of South Africa to townships on the outskirts of urban areas; and (4) the continuing policy of removing Blacks from squatter communities in White areas to the homelands.[4]

Of the 122 million hectares of land in South Africa, approximately 81.2 percent are occupied by Whites in White areas and 3.6 percent by legal Blacks who have no legal right to landownership in these areas (Table 1). Indians and Coloreds occupy 2.4 percent in White areas and the remaining 12.8 percent is designated for Black occupation and ownership in the "homelands." Land occupation often means landownership for Whites, Indians, and Coloreds. For Blacks in White areas, land occupation and ownership are never synonymous. Thus, from the standpoint of ownership in the strictest sense, Whites own 84.8 percent of the land in South Africa, taking into account the 3.6 percent occupied by Blacks in White areas to which they can never attain freehold title.

It is worth noting that, while Blacks are not permitted to own land in White areas, the right of long-term occupation of land in White areas was granted to legal Blacks during the Second World War in what is known as the 30-year leasehold scheme. This scheme granted to Blacks the right of occupation of a stand for 30 years, whereupon another 30 years might be forthcoming at the expiry of the initial lease. Blacks, by this scheme, could apply to a government administration board for land on which to construct a house, or for a stand which included a house.[5]

The major reason for the creation of the 30-year leasehold scheme was a desire on the part of the government to manage the unprecedented influx of Blacks into urban areas during and immediately following the Second War War, an influx which led to a critical shortage of housing and slum conditions of substantial proportions.[6] The fact that in 1975 75 percent of the houses in black townships were owned by government administration boards is ample evidence of how unsuccessful the 30-year leasehold scheme was in allocating the land resource. This was made so mainly by the unwillingness of lending institutions to provide mortgage financing and by the government's decision in 1968 to require that new leaseholders accept "homeland" citizenship as a precondition for the granting of a lease.[7]

Recognizing the ineffectiveness of the 30-year leasehold scheme and related systems that were designed to address the problems of housing shortage and land tenure, the government in 1978 introduced the 99-year leasehold scheme by amending the Blacks (Urban Areas) Consolidation Act of 1945, No. 25, which resulted in the Bantu (Urban Areas) Amendment Act of 1978, No. 97.[8] Under this new act, a legal Black resident in an urban area may lease land, improve upon it, and transfer the lease to other individuals over the 99-year period by sale, donation, exchange or bequest. A noticeable and peculiar omission in this

TABLE 2

DISTRIBUTION OF LAND BETWEEN BLACK AND WHITE SOUTH AFRICANS, 1980

	Land Area (Million Hectares)		Population		Land/Man Ratio	
	White	Black	White	Black	White	Black
Republic of South Africa (White Areas)	99,064,000	4,392,000	4,528,000	10,122,000	21.9	0.43
Homelands		15,711,385		11,052,134		1.42
Transkei		3,871,319		2,621,700		1.48
Ciskei		939,626		669,000		1.40
Kwazulu		3,271,667		3,409,000		0.96
Bophuthatswana		3,853,089		1,285,675		3.00
Lebowa		2,247,551		1,739,000		1.29
Venda		618,156		342,759		1.99
Gazankulu		633,110		512,000		1.24
KaNgwane		208,381		161,000		1.29
QwaQwa		48,243		156,000		0.31
Kwandebele		20,243		156,000		0.13

Source: Survey of Race Relations in South Africa, 1981, South African Institute of Race Relations, Johannesburg, 1981, p. 194; Jill Nattrass, The South African Economy: Its Growth and Change, (Cape Town: Oxford University Press, 1981), p. 194; South Africa 1976: Official Yearbook of the Republic of South Africa, (Johannesburg: Chris Van Rensburg Publications, 1976), p. 618; South Africa 1984: Official Yearbook of the Republic of South Africa, (Johannesburg: Chris Van Rensburg Publications, 1984), p. 33.

act is that it makes no provisions for those who acquired land tenure under the 30-year leasehold scheme. Nevertheless the 99-year leasehold scheme is considered superior to the former in that it allows leaseholders to use their registered rights as collateral for a mortgage bond, and it provides for greater security of tenure. While the clear advantage of the 99-year leasehold scheme, which is the right to use registered rights as collateral, has enhanced the willingness of financial institutions to supply funds for residential construction and for the purchase of existing homes, many hopeful homeowners find the cost of a leasehold prohibitively expensive.

In 1981 the cost of a leasehold consisted of R6 for application processing,

R300 for surveying cost, and a right of leasehold fee which could range from R450 to R2,000, depending upon whether the area was an old township, a new township where services include tarred roads, street lights, waterborne sewerage, and so forth, or a prestigious township where services are more inclusive and homes more costly. The right of leasehold fee is clearly the most costly expense involved in acquiring a stand.[9]

Since its implementation, the 99-year leasehold scheme has been only marginally successful in rationing the land resource to those it is meant to benefit. Even the government has acknowledged that the cost is beyond the financial resources of many people, a reality which largely accounts for the fact that, by August 1981, only 1,122 rights of leasehold were registered while roughly 700

TABLE 3

LAND USE PATTERNS IN AGRICULTURE BY COLOR, 1980

	Million Hectares		Group Land[a]		Percentage of Total	
	White	Black	White	Black	White	Black
Cultivated Land	10,028	2,143	12.0	14.0	10.0	2.0
Permanent Crops	821	41	1.0	--	1.0	--
Artificial Pastures	897	35	1.0	--	1.0	--
Natural Pastures	71,342	11,920	81.0	79.0	69.0	12.0
Forest Land	1,071	419	1.0	3.0	1.0	--
Other	3,636	518	4.0	4.0	3.0	1.0
Total	87,795	15,076	100.0	100.0	85.0	15.0

[a]Group land for whites refers to land owned by land companies; for blacks it refers to land tenure on the basis of tribal organization.

Source: Jill Nattrass, The South African Economy: Its Growth and Change, (Cape Town: Oxford University Press, 1981), p. 5; 1980 Abstracts of Agricultural Statistics, Division of Agricultural Economics and Marketing, Pretoria, 1980.

mortgage loans for 99-year leaseholds had been granted.[10] Moreover, in 1981 it was estimated in a housing survey which included Soweto that more than two-thirds of householders were renting their homes.[11]

The extent of inequality in the distribution of land in 1980 also is reflected in the land/man ratio (Table 2). For example, the land/man ratio indicates that 21.9 hectares were available to each White contrasted with 0.43 hectares for each Black in White areas and 1.42 hectares for each Black "homelands" inhabitant. Moreover, it can be inferred from the data in Table 2 that White land occupation exceeded Black by a ratio of 4.9:1 and White landownership exceeded Black by 6.3:1. The substantially uneven land occupation and land ownership ratios do not reflect the racial distribution of the population, as Blacks in 1980 outnumbered Whites by 5:1.

About 85 percent of the land resource in South Africa in 1980 was devoted to agricultural purposes, as is shown in Table 1. The most meaningful and noticeable features of the distribution of agricultural land are the following.

First, the racial allocation of agricultural land closely parallels the racial distribution of land in general, with 85 percent controlled by Whites and the remaining percentage tribally distributed between Black "homelands" inhabitants (Table 3).

Second, a strikingly small proportion of cultivated land (land under crops) existed in the "homelands" and in White areas, a result that may be partially attributed to arid soil in many areas and to cattle raising. Indeed, only about 2.2 million hectares of land in the homelands are arable (14 percent) compared to roughly 14.6 million hectares (14.7 percent) in White areas.[12] In 1980 about

TABLE 4

CHANGE IN FARM SIZE, 1919-80

Year	Number of White Farms	Average Farm Size (Million Hectares)	Area (Million Hectares)	Percentage Change in Farm Size	Change in Area
1919	78,086	992.6	7,750.4	-	-
1936	103,360	831.6	8,492.0	-16.2	9.6
1951	118,097	736.5	8,697.9	-11.4	2.4
1970	91,153	978.8	8,921.7	32.4	2.6
1976	75,562	1,134.4	8,571.9	15.9	-3.9
1980	70,000[a]	1,156.2	8,779.5	2.0	2.4

[a]Preliminary estimates from South Africa 1984: Official Yearbook of the Republic of South Africa, (Johannesburg: Chris Van Rensburg Publications, 1984), p. 930.

Source: Jill Nattrass, The South African Economy: Its Growth and Change, (Cape Town: Oxford University Press, 1981), p. 109.

one-fifth as much land was cultivated in the "homelands" compared to White areas where population pressures on the land are far less intense, where the most important economic activity is manufacturing as opposed to agriculture, and where agricultural production methods are modern in contrast to the primitive methods employed in the "homelands."

Aggregate estimates of the racial allocation of farmland conceal the concentration of land within the groups themselves. Furthermore, the fact that Black farmland is tribally distributed makes the distribution of land between Blacks amibiguous and probably accounts for the meager attention that has been accorded this issue in the literature. Presently, the most data students of this issue can acquire are the number and percentage of Blacks employed in subsistence agriculture, data which have been characterized as speculative and debatable.[13] It may prove useful, however, to discuss the distribution of farmland among Whites since White farmers in 1983 accounted for 42.2 percent of South Africa's

wealth holdings while Blacks had virtually no wealth, and since White agriculture is so vastly different from that which exists in the "homelands."[14]

The third most notable characteristic of the distribution of farmland is the highly uneven distribution that exists between Whites. In the latest year for which data are available, 1975, Whites controlled more than 80 percent of farmland while 40 percent of this land was controlled by only 5 percent of farmers (3,500).[15]

Table 4 sheds additional light on the degree of concentration of farmland among Whites, albeit it does not reflect the fact that 40 percent of farmland was held in 1975 by so few farmers. It indicates that from 1919 to 1951 the number of White farmers increased dramatically with a concomitant increase in the amount of farmland. This trend mainly is because in 1913 Blacks were dispossessed of their landholdings by the government of the Union of South Africa (see below). Table 4 also shows that, after 1951, a reversal occurred in the allocation of farmland among Whites as reflected in the 41 percent drop in the number of White farms, accompanied by a 57 percent increase in average farm size. An important contributory factor to the decrease that occurred in the number of farms was an increase in the degree of concentration of farmland in the hands of fewer farmers.[16] Over time fewer farmers have entrenched their holdings of farmland and simultaneously emerged as the wealthiest occupational group.

II

Overview of the Potential of Farmland

UNTIL THE ONSET in 1980 of South Africa's worst drought in more than 60 years, it had been regarded as the breadbasket of southern Africa.[17] Numerous factors account for South Africa's rise to prominence in agricultural production and export after having been considered in 1940 by a government commission ". . . as a poor crop raising country. . . ."[18] These factors include government-legislated property rights which restrict Black ownership of land to the "homelands" while allowing for the monopolization of farmland in White areas by large, White landholders who, through their monopsony power in the rural labor market, pay among the lowest wages earned by Blacks in any employment sector.[19] Another factor of considerable importance is the use of production methods compatible with the terrain and the amount of rainfall.[20]

South Africa can be considered as having two agricultures—one dominated by Whites and the other by Blacks in the "homelands." Jill Nattrass sharply contrasted the two when she said:

> The two sectors of South African agriculture are so different that when one moves from a White-owned modern capital-using farming sector to a Black subsistence oriented and tribally organized farming area, it is almost like stepping through a time warp.[21]

It is important to emphasize that although the majority of Black farming activity occurs in the "homelands" where, in 1980, 37.9 percent of South Africa's people lived, there is continually some measure of agricultural production undertaken by Blacks living on White farms in White areas who are permitted, only for subsistence purposes, to cultivate designated parcels of land as payment-in-kind for their labor. Much ". . . good but underdeveloped agricultural land . . ." exists in White rural areas, "usually owned by absentee landlords. Millions of rural Black people lack access to it and the technical means or know-how to make it more fruitful."[22] Such access would provide competition to the ". . . 90,000 rich, educated White farmers . . ." thereby undermining the purpose of the Native Land Act of 1913 (see below).[23] Thus the opportunity for Blacks in White areas to acquire farmland for commercial purposes does not exist.

TABLE 5

AGRICULTURAL PRODUCTIVITY BY COLOR, 1980

	Agricultural Sector	
	White	Black
Total Land Area (Million Hectares)	87,795	15,076
Percentage Cultivated	11.4	14.2
Employment (Millions)	1,143.0	2,276.0
Land Per Worker (Hectares)	78.0	13.7
Output Per Man	R4,991	R97
Output Per Hectare Cultivated	R36.7	R91

Source: Jill Nattrass, The South African Economy: Its Growth and Change, (Cape Town: Oxford University Press, 1981), p. 100; 1980 Abstracts of Agricultural Statistics, Division of Agricultural Economics and Marketing, Pretoria, 1980; South Africa 1984: Official Yearbook of the Republic of South Africa, (Johannesburg: Chris Van Rensburg Publications, 1984), p. 487.

Marked contrast between the productivity levels of the two agricultures are reflected in output per worker and output per hectare of cultivated land (Table 5). In 1980, White agricultural productivity per person was R4,991 compared to R91 for Blacks, a productivity differential of 55:1. Moreover, output per hectare of cultivated land was R367 and R97, respectively. Probably the most salient and revealing feature of the capacities of the two agricultures is the contribution each made in 1980 to South Africa's Gross Domestic Product (GDP).[24] White agriculture contributed R5,705 million (9 percent) compared to R207.6 million (.003 percent) Black.[25] These data suggest that the agricultural potential of the "homelands" was about 3.6 percent of White agriculture.[26] Furthermore, these data lend credence to Brand's observation that virtually the entire contribution to economic growth made by the agriculture sector can be ascribed to the highly mechanized, White-owned agriculture sector.[27]

It is plausible to conclude that land to which Blacks legally hold claim is economically inviable and incapable of sustaining the masses that inhabit it. Moreover, the "homelands," as Black land is called, exist mainly for apartheid purposes and to assure continued economic growth of the White-owned economy, accomplished largely through the employment of the relatively abundant and cheap supply of Black "homelands" labor.[28]

III

Historical Events and Legislative Measures

THE HIGHLY SKEWED DISTRIBUTION of land in South Africa had its genesis in what has come to be known as the "Great Trek" (the migration of Dutch farmers into the interior of South Africa) and in several legislative measures.

Long before the Union of South Africa was formed in 1910, it was traditional among Whites to consider the territorial segregation of Europeans and Africans and the separation of Africans from control of the land as a "natural policy." The stage was set for the "natural policy" within 50 years of the establishment of a trading station at the Cape by the Dutch East India Company in 1652. In 1700, Dutch cattle farmers began their migration into the interior of South Africa. They encountered at first thousands of native Africans (Hottentots and Bushmen) and later millions of Bantu and Zulu. In two brief wars, the "trekkers" convinced the Hottentots to accept their occupation and to hire themselves out to the new settlers as farm laborers and domestic servants. The Bushmen were far more reluctant to abandon their ancient way of life, but superior White weaponry compelled them to abandon the land. All the adult men who did not flee were exterminated, their children captured and enslaved as herdsmen.[29]

In the latter part of the 1700s Dutch trekkers encountered more formidable contenders for the land. They also were more culturally advanced: the Bantu on the eastern side of Africa and the Zulu who occupied what is now a South African province, Natal. Wars and continuous conflicts continued with the Bantu for almost 100 years. White colonists were made aware in their conflict with the Bantu that there was no longer an endless supply of unoccupied land. Efforts to acquire new grazing lands required trekkers to avoid the Bantu by travelling to northwestern portions of the new land, where new provinces were established (Orange Free State and the Transvaal). But the new encroachment was met with resistance by the Zulu who sought to rid the land entirely of White settlers. However, the Zulu were soundly defeated in 1838 at the Battle of Blood River. Natal was ordered annexed by the British Government in 1843.[30]

By 1852 the British Parliament decided additional colonies were no longer economically advantageous and resigned itself to exercising authority only in

the Cape Colony and Natal, leaving the remaining new republics of Orange Free State and the Transvaal in the hands of the trekkers. Wealth in land and livestock was virtually evenly distributed among the inhabitants of these new republics, but

> Many of the Africans who lived in the Transvaal and [Orange] Free State were deprived of their rights to occupy land. This was sometimes accompanied by violence and war, but much more frequently it was a silent process . . . Possession meant different things to Europeans and to Africans. To the former it meant physical possession, the right to property; to the latter it meant use . . . . What really happened was that two totally different conceptions of land-ownership were in conflict, and neither side knew or recognized the conflict.[31]

In the new republics, the trekkers, later known as Boers, recognized the sovereignty of the chiefs where there was clear, though not "legal," occupation by Africans.[32] From these two republics and from this recognition the idea of African reserves was born, an idea which would be formalized 61 years later by the Parliament of the Republic of South Africa, legally confining Black land-ownership to a tiny fraction of South African soil.[33]

The Great Trek is directly linked to an array of historical events relating to land distribution that have made South Africa one of the world's most complex and troubled nations. These events include the facts that (1) it acquired European political control of millions of natives; (2) it contributed heavily to the rise of Afrikaner nationalism and the National Party, which came to power over the more tolerant Union Party in 1948 with promises of legal separation of the races (apartheid); and (3) it reduced native "control" of land to the reserves.[34]

Thus, it seems that from the viewpoint of European settlers, particularly Dutch Boers whose descendants now guide the destiny of South Africa, Black property rights to the land resource as natives understood such rights ended with each encounter of trekkers with native inhabitants. The "natural policy" was underway.

Legislative measures also have been major factors in creating the ruling White minority. A plethora of written laws were enacted by the Union of South Africa to implement a single native policy, formalize the long established view of the "natural policy," assure an adequate labor supply, and allow for economic growth and dominance of the economic resources of the developing nation by Whites. These aspirations manifested themselves in such measures as the Mines and Works Act (1911), the Native Land Act (1913), the Native Registration and Protection Bill (1923), the Native Urban Areas Act (1923), and so on.[35]

Six legislative measures were most important from the standpoint of racial distribution of land.

Through the Native Land Act (1913), No. 27, slightly more than 9 million hectares of land in the provinces of Orange Free State, the Transvaal, Cape Province, and Natal were declared inalienable Black territory. This was land Blacks had always occupied and had come to be called reserves. The enactment

of this act made it illegal to sell land outside the reserves to Blacks and also ended squatting and sharecropping by Blacks on White farms. Blacks who remained on White farms after the act went into effect were reduced to labor tenants.[36]

The effects of the 1913 Land Act were many and varied. It limited Black rights to landownership to reserve areas, it legalized and regularized territorial segregation and the "natural policy," and it increased the supply of cheap Black labor to South Africa's predominantly White-owned industry. The latter was assured by Black disenfranchisement and by Black population growth on a fixed amount of land, which would eventually result in an erosion of the agricultural potential of the land.[37] With virtually no agricultural potential in the reserves or the means to provide that potential, Blacks were required to seek employment in areas where jobs could be found.

The Development Trust and Land Act of 1936 augmented the land that had been set aside for Black occupation and ownership under its 1913 predecessor by adding 6.3 million additional hectares of land. Contemporary Whites regard this act as forming the bases for Black political dispensation, thus precluding Black participation in the political process in White areas. Such participation would have disastrous results for Whites.[38]

The long established custom of racial apartheid was formalized in 1950 with the passage of the Group Areas Act which demarcated separate areas of residence for Blacks, Whites, Coloreds, and Indians. For Blacks, this act has implications only for land use and land occupation, since Black landownership outside the reserves was made unlawful by the 1913 Land Act. This act is considered the cornerstone of apartheid and is regarded, like the 1913 Land Act, as a landmark act because it was the first in the Union of South Africa to address the issue of Non-White land use and occupation in White areas.[39]

In 1950 Professor F. R. Tomlinson was authorized by the government to study viable means of providing for separate economic and political development of the Bantu. Several recommendations were made by the Tomlinson Commission, but the most important from the standpoint of land distribution was that the 264 scattered Bantu reserves should be consolidated to form the present-day "homelands" for the various Black peoples: Xhosa, Zulu, Venda, Tswana, Swazi, Tsonga, and the Sotho group.[40]

The first steps toward implementing the ideas of the Tomlinson Commission came when the Bantu Authorities Act of 1951 empowered chiefs to merge various tribes and designate individuals who would later assume responsibility of entire territories. This act also provided for similar arrangements for self-government in Bantu townships existing on the outskirts of White cities.[41]

The Tomlinson Commission's recommendations regarding independent "homelands" for Bantu were implemented in 1959 with the enactment of the

Promotion of Self-Government Act (1958) which reduced the 264 reserve areas to eight (later to become 10), appointed a commissioner to serve as head in guiding each region to self-government, and granted political rights to the Bantu within the newly created "homelands."[42]

These measures had several important, interrelated, and long-lasting effects. They legitimatized and assured White domination of the land resource and thus of the economy of South Africa; they eliminated the need for granting political representation to Blacks in White local, provincial, and national governments in the Union; and they provided for economic development by making Black landlessness a cornerstone of this development. Landless and largely without industry of their own, Blacks would be obliged to supply their labor at low rates of pay, thus fostering the economic expansion of South Africa's predominantly White-oriented industry. This is precisely what has happened throughout the economic development of the Union, later the Republic of South Africa, when, in 1960, South Africa ceased to be a member of the British Commonwealth.

IV

Perspective

SINCE THE PASSAGE of the 1913 Land Act, Blacks have been virtually landless and largely impoverished. Most Blacks who seek to earn an honest living have but two choices available to them: (1) supply their labor to White-owned industry in White areas or (2) try to make a living on drought-stricken, infertile soil in the "homelands." It is plain that these two choices were among the major objectives of the House of Assembly when it enacted this far-reaching, landmark legislation which formalized the "natural policy" and created and entrenched an unparalleled inequality between Blacks and Whites in the distribution of land, income and wealth.

Other things remaining the same, Black landlessness will worsen over time as Black population growth (2.7 percent annually compared to 1.5 percent for Whites) continues.[43] Furthermore, soil in the "homelands" will be further depleted by population growth on a fixed quantity of land and by overinvestment in cattle due to tribal custom and to the inability of farm families to finance irrigation, purchase other agricultural hardware, or simply to provide basic infrastructure.

It is recognized that many families in the "homelands" receive remittances from a family member who is contracted for eleven months out of the year to work in a White area; but these remittances average only between 20 to 35 percent of the earnings of these migrant workers.[44] Since Blacks employed in the dominant sector of the South African economy, the modern sector (all industrial components except agriculture, forestry, and fisheries sector, domestic

services, and the informal sector consisting of street vendors and small shops), earned only an average of R2,268 in 1980 compared to R9,204 for Whites, remittances from migrant laborers are too inadequate to provide for the financial resources to make the land fruitful.[45] Moreover, assistance from the South African government has been marginal at best. In fact, the bulk of government financial assistance to agriculture has gone to the White farming sector, which has added to the broadening racial agricultural productivity differential.[46]

It seems reasonable to conclude that high unemployment, high mortality and morbidity rates, malnutrition and abject poverty will continue in the "homelands" as increased landlessness, the lack of financial resources and technical means to make the land bountiful continue to persist, and as the tribal custom of accumulating wealth in the form of cattle holdings is perpetuated.[47] The "homelands" population will not be the only Blacks affected by these problems; urban Blacks will face similar ones, though not as severe. Consequently, Whites may be required to ward off social unrest of proportions unparalleled by South African standards.

It appears that from the viewpoint of the land resource, its ownership and control, Blacks were better off when they roamed the bush freely, hunting for game and unaware of the more advanced European technology—and of the institution of private property in land particularly.

Notes

1. See for example, N. S. B. Gras, *A History of Agriculture in Europe and America* (New York: Appleton-Century Crofts, Inc., 1940) and J. D. Chambers, "Enclosures and Labor Supply in the Industrial Revolution," *Economic History Review,* Series 2, Vol. 5, No. 3 (New York: Kraus Reprint Corporation, 1953), pp. 319*ff.*

2. This paper limits its discussion of the land question to relevant issues and facts that pertain to Blacks *vis-à-vis* their White counterparts. Three reasons account for this emphasis: (1) Indians and Coloreds constitute a relatively small percentage of the South African population and, as such, pose no real threat to the political, social, and economic stability of the Republic of South Africa; (2) Indians and Coloreds are better off than Blacks, as they are accorded more privileges (landownership in White controlled areas, higher earnings, better living conditions, political rights, and greater social acceptance) than Blacks; and (3) the lop-sided distributions of land, wealth, and income, based mainly on color, are the most unequal in the world. Moreover, the study of the land issue as it pertains to Blacks and Whites is regarded as more important in this paper because of the stark political, social, and economic differences that have resulted from its allocation—differences that may lead to massive social upheaval of such major proportions that the whole of South African society and foreign companies operating there may be adversely affected.

3. The "homelands" are reserve areas created by the South African Government in its efforts to relocate the vast majority of the Black population. These areas include Ciskei, Kwazulu, QwaQwa, Lebowa, Gazankulu, KaNgwane, Kwandebele, Transkei, Bophuthatswana, and Venda. Three of the biggest homelands—Transkei, Bophuthatswana, and Venda—have been declared independent and have their own constitutions and presidents. The term "homelands" is used

for convenience to denote both the "national States" (those moving toward independence) and the independent States.

4. Blacks are considered legal residents of White-occupied South Africa if they (1) were born in a White area in "native townships," (2) remained in the employment of one employer for a minimum of 10 years, (3) lawfully lived in a native township for a minimum of 15 years, (4) or are dependents of a man satisfying these criteria. For more detailed information on citizenship rights for Blacks, see H. Schomer, "South Africa Beyond Fair Employment," *Harvard Business Review,* Vol. 61, No. 3 (May–June, 1983), pp. 145–56.

5. T. R. H. Davenport, *South Africa: A Modern History* (New York: The Macmillan Press, Ltd.), p. 342.

6. *South Africa 1984: Official Yearbook of the Republic of South Africa* (Johannesburg: Chris Van Rensburg Publications, 1984), p. 225.

7. *South Africa 1976: Official Yearbook of the Republic of South Africa* (Johannesburg: Chris Van Rensburg Publications, 1976), pp. 227–29.

8. B. G. Boaden, "The Financial Aspects of Black Homeownership with Reference to the New 99-Year Leasehold Legislation," Occasional Paper (Johannesburg: University of Witwatersrand, 1979), pp. 3–4.

9. In 1981, the leasehold fee on residential plots, for example, was calculated on the basis of R1.50 per square meter and R2.42 per square meter in prestigious townships. By the law each of these fees may be adjusted at the discretion of the Director General of the Department of Cooperation and Development, whose responsibility includes the development of housing schemes. See *South Africa 1981: Official Yearbook of the Republic of South Africa,* (Johannesburg: Chris Van Rensburg Publications, 1981), p. 247; Boaden, *op. cit.,* p. 3.

10. *South Africa 1981: Official Yearbook of the Republic of South Africa, op. cit.,* p. 247.

11. *Ibid.,* p. 248.

12. J. H. Nattrass, *The South African Economy: Its Growth and Change* (Cape Town: Oxford Univ. Press, 1981), p. 4.

13. *Ibid.,* p. 4.

14. Land monopolization by Whites has fostered substantial wealth inequality among Whites as well as between Whites and Blacks. The distribution of wealth was reported in *The Star,* March 14, 1983, Johannesburg, from a University of Natal economic research project conducted by M. D. McGrath. Among McGrath's findings were that 42.2 percent of South Africa's wealth was held by White farmers, 21 percent by those in professional and technical occupations, 12 percent by directors and managers, 6.9 percent by senior civil servants, 7.6 percent by salesmen and representatives, and 10.3 percent by retired Whites. The report added that 24 percent of the White population had zero wealth while other races also had no wealth. The relative economic position of White farmers is in part explained by land monopolization but low wages paid to Blacks who, in the main, must supply their labor to White farmers and other White employers also are an important explanatory factor. The best accounts of Black earnings in agriculture have appeared in non-academic and non-government reports. According to "Farm Labour," *Financial Mail,* September 17, 1982, some Black workers earned no cash wage in agriculture in 1981 while others were paid a maximum amount of about R952, roughly two-thirds of which was in the form of fringe benefits.

15. Nattrass, *op. cit.,* pp. 99-100.

16. *Ibid.,* p. 78.

17. *Ibid.,* p. 4.

18. *Ibid.,* p. 4.

19. *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.,* p. 484–85.

20. Nattrass, *op. cit.*, p. 4.

21. *Ibid.*, pp. 99-100.

22. Schomer, *op. cit.*, p. 151.

23. R. Tomlinson, "Industrial Decentralization and the Relief of Poverty in the Homelands," *South African Journal of Economics*, 51 (April 1983), p. 557.

24. Gross Domestic Product is defined as the total value of all goods and services produced in a country in the current year. It is similar to Gross National Product in this regard, except that GDP includes net factor payments paid to the rest of the world. See *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, pp. 348 and 356.

25. C. Simpkins, "Agricultural Production in African Reserves, 1918–1969," *Journal of Southern African Studies*, 7 (May 1981), pp. 256–83.

26. Nattrass, *op. cit.*, p. 118.

27. F. Wilson, A. Kooy, and D. Hendric, *Farm Labour in South Africa* (Cape Town: David Phillips Publishers, 1977), p. 75.

28. "Black Development in South Africa," *Bureau for Economic Development, Cooperation and Research (BENSO)*, Pretoria, 1969.

29. L. Marquard, *Peoples and Policies of South Africa* (London: Oxford Univ. Press, 1967), p. 38.

30. *Ibid.*, p. 11-12.

31. *Ibid.*, p. 13-15.

32. The terms Boer (farmer) and Afrikaner came to be used interchangeably among the new Dutch settlers. Boer was a name given by the Governor of the Cape Colony, Wilem Adriaan Van Des Stel, to Dutch farmers who advanced into the interior of the new land. Governor Van Des Stel allegedly resented trekkers for this advance because it interfered with his attempts to monopolize the produce market along with his friends. The term was elevated by trekkers to a badge of honor, denoting a people reared on southern African soil, imbued with a patriotism centered in the new land into which they carried the cultural virtues of western Europe. See *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, p. 38.

33. It is worth noting that Britain's indifference toward the Orange Free State and the Transvaal was short-lived, as economic and political events in these republics sparked renewed British involvement. In the first place, many settlers in the Cape Colony resented the balkanization of South Africa, in addition to many people in the Orange Free State and the Transvaal who espoused the notion of federation. Second, the spectacular diamond discoveries in Griqualand West (now known as Kimberly) led to bitter disputes over the ownership of the area between both Boer republics and such African tribes as the Tswana and Griqua (a mixed Hottentot and half-breed tribe led by Chief Waterboer). The land was awarded by the British to Waterboer, who was promptly persuaded in 1871 to align the Griqua with Britain in the creation of the Crown Colony of Griqualand West. This action left the Transvaal and Orange Free State bitter and suspicious of British intentions. Nevertheless Britain forged ahead in its efforts to federate the Boer republics and, when all diplomatic efforts failed, the Transvaal was annexed in 1877. The Transvaal annexation led to the defeat of British forces at the Battle of Majuba Hill in what is referred to as South Africa's First War of Independence. Despite this defeat Britain's political and economic interests in South Africa intensified as the rise of colonial ambition in Europe brought Germany, France, Belgium, and Portugal into the struggle for Africa. Among the most important factors which account for Britain's continued efforts to expand its influence in southern Africa are: Germany's annexation of the territory now known as South West Africa (Namibia), the discovery of the world's richest gold-bearing reef on the Witwatersrand in 1886 (where Johannesburg now stands), and the unacceptable economic and political status of British subjects (Uitlanders) on

the Witwatersrand, who had been accused in the Jameson Raid of 1895–96 of attempting to overthrow President Paul Kruger's government in the Transvaal. When diplomatic efforts to resolve the dispute over the status of the Uitlanders proved unsatisfactory, Britain launched the Anglo-Boer War (the Second War of Independence). The Boers were forced to become a part of the British Empire at the conclusion of the war in 1902. The Treaty of Vereeniging was negotiated on May 31, 1902, the treaty on which the Union of South Africa was formed eight years later. The most important terms of the generous treaty were these: responsible government would be granted by Britain upon settlement of the country; the Dutch language was recognized as equal to English, which already was the case; non-European franchise was postponed until after the granting of responsible government; and the British Government agreed to assist in the economic reconstruction of the Boer Republics. For a more in-depth discussion of the early history of South Africa, the reader will do well to consult Marquard, *op cit.*, pp. 11 *ff* and *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, pp. 3–65.

34. Marquard, *op. cit.*, p. 14.

35. P. L. Wickins, "The Native Land Act of 1913: A Cautionary Essay on Simple Explanations of Complex Change," *South African Journal of Economics*, 49 (February 1981), pp. 107–29. According to Wickins, these acts were passed in an effort ". . . to implement a single 'native policy' for the Union of South Africa . . . ," particularly the Native Land Act of 1913. Wickins adds that ". . . these Bills shared a number of features: Firstly, they were concerned with assuring White enterprise an adequate supply of disciplined and inexpensive Black labor. Secondly, they aimed to hamper the economic competition and social integration of Africans by restricting their access to skills, labor organization and land; and, thirdly, they were generally resented by African opinion, which was not directly consulted." *Ibid.*, p. 106.

36. *Ibid.*, pp. 107–29; J. Selby, *A Short History of South Africa* (London: George Allen and Unwin, Ltd., 1973), p. 247. R. Tomlinson, *op. cit.*, pp. 545–46; Nattrass, *op. cit.*, p. 118; M. S. Jacobs, *The Law of Expropriation in South Africa* (Cape Town: Junta, 1982): A. D. J. and S. H. Treiman, *The Practitioner's Guide to the Alienation of Land Act* (Durban: Butterworth, 1982); Marquard, *op. cit.*, p. 38.

37. Tomlinson, *op. cit.*, p. 557.

38. *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, pp. 202–03; Marquard, *op. cit.*, p. 38.

39. Marquard, *op. cit.*, p. 53; Selby, *op. cit.*, pp. 245–46.

40. Tomlinson, *op. cit.*, pp. 545–46; Marquard, *op. cit.*, pp. 43 and 53.

41. Selby, *op. cit.*, p. 248.

42. Tomlinson, *op. cit.*, p. 547; *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, p. 203.

43. *Ibid.*, p. 27.

44. Nattrass, *op. cit.*, pp. 116–21.

45. *Ibid.*, p. 116; Schomer, *op. cit.*, p. 150. A more in-depth discussion of the modern sector is provided in J. H. Nattrass, "The Narrowing of Wage Differentials in South Africa," *South African Journal of Economics*, 45 (December 1977), pp. 408–30 and in *South Africa 1984: Official Yearbook of the Republic of South Africa, op. cit.*, pp. 481–84.

46. Nattrass, *op. cit.*, pp. 116–21.

47. This practice is known to have resulted in overstocking, which has created semi-desert conditions in many parts of the "homelands." Many of the problems that are associated with the reserves, particularly malnutrition and mortality, could be lessened if much grazing land were used more productively such as in the raising of cereal crops.

The Agrarian Land Question in South Africa in Its Historical Context, 1652–1988

By RUDOLPH DANIELS*

ABSTRACT. The highly uneven *land distribution* in *South Africa* which favors the *White* ruling minority has its roots in many historical events and legislative measures. These include the "*Great Trek*" (the *migration* of *Dutch farmers* into the interior of South Africa), *squatter laws* in *British colonies* and *Dutch republics,* and the establishment of the *Union of South Africa* in 1910 whose parliament immediately took up the issue of land distribution and passed the ultimate *land expropriation* legislation, the *Natives Land Act* (1913), No. 27. Since the passage of this landmark act, indigenous Africans have been virtually *landless* while South Africa has emerged as one of the world's most economically advanced nations.

SINCE THE UNION of South Africa was formed in May, 1910, later becoming the Republic of South Africa in 1960, it has acquired many distinctions. Among its most celebrated distinctions is that over the past 60 years it ranks among the nations that have experienced the most rapid economic growth. Peculiarly, the Republic of South Africa achieved this growth after creating one of the most unequal land distributions, based strictly on race, in recorded history.

Presently, 81.2 percent of the 122 million hectares of land in South Africa is owned by whites in white areas. Africans in white areas occupy 3.6 percent of the land but can never attain freehold title to it. Indians and coloreds own 2.4 percent of land in White areas with the remaining 12.8 percent appropriated for black occupation in the "homelands." In the strictest sense, whites own 84.6 percent of the land, since blacks in white areas have no legal rights to land ownership.[1]

Many important events and legislative measures over the course of South Africa's history account for the prevailing land distribution. This paper will examine these events and legislatives measures as the most crucial elements in the historical progression leading to one of South Africa's most sensitive structural problems, land monopolization by the white minority.

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I

The Great Trek

SOUTH AFRICA'S PRESENT-DAY POSITION as having one of the world's most disparate land distributions had its genesis in what has come to be known as the "Great Trek," the migration of Dutch farmers into the interior of South Africa.

Long before the Union of South Africa was formed in 1910, it was traditional among whites to consider the territorial segregation of Europeans and Africans and the separation of Africans from control of the land as a "natural policy." The stage was set for the "natural policy" within 50 years of the establishment of a trading station at the Cape by the Dutch East India Company in 1652. In 1700, Dutch cattle farmers began their migration into the interior of South Africa. They encountered at first thousands of indigenous Africans (Hottentots and Bushmen) and later millions of Bantu and Zulu. In two brief wars, the "trekkers" convinced the Hottentots to accept their occupation and to hire themselves out to the new settlers as farm laborers and domestic servants. The Bushmen were far more reluctant to abandon their way of life, but superior White weaponry compelled them to abandon the land. All the adult men who did not flee were exterminated, their children captured and enslaved as herdsmen.[2]

In the latter part of the 1700s Dutch trekkers encountered more formidable and more culturally advanced contenders for the land: the Bantu on the eastern side of Africa and the Zulu who occupied what is now a South Africa province, Natal. Wars and continuous conflicts continued with the Bantu for almost 100 years. White colonists were made aware in their conflict with the Bantu that there was no longer an endless supply of unoccupied land. Efforts to acquire new grazing lands required trekkers to avoid the Bantu by travelling to the northwestern portions of the new land, where new provinces were established (Orange Free State and the Transvaal). But the new encroachment was met with resistance by the Zulu who sought to rid the land entirely of white settlers. However, the Zulu were soundly defeated in 1838 at the Battle of Blood River. Natal was ordered annexed by the British Government in 1843.[3]

By 1852, the British Parliament decided additional colonies were no longer economically advantageous and resigned itself to exercising authority only in the Cape Colony and Natal, leaving the remaining new republics of Orange Free State and the Transvaal in the hands of the trekkers. Wealth in land and livestock was virtually evenly distributed among the inhabitants of these new republics, but

> Many of the Africans who lived in the Transvaal and [Orange] Free State were deprived of their rights to occupy land. This was sometimes accompanied by violence and war, but much more frequently it was a silent process . . . Possession meant different things to Europeans and to Africans. To the former it meant physical possession, the right to property; to the latter it meant use.[4]

In the new republics, the trekkers, later known as Boers, recognized the sovereignty of the chiefs where there was clear, though not "legal," occupation by Africans.[5] From these two republics and from this recognition, the idea of African reserves was born, an idea which would be formalized 61 years later by the Parliament of the Republic of South Africa, legally confining Black land ownership to a tiny fraction of South African soil.[6]

The Great Trek is directly linked to an array of historical events relating to land distribution that have made South Africa one of the world's most complex and troubled nations. These events include the facts that (1) it acquired European political control of millions of natives; (2) it contributed heavily to the rise of Afrikaner nationalism and the National Party, which came to power over the more tolerant Union Party in 1948 with promises of legal separation of the races (apartheid); and (3) it reduced native "control" of land to the reserves.[7]

Thus, it seems that from the viewpoint of European settlers, particularly Dutch Boers whose descendants now guide the destiny of South Africa, black property rights to the land resources, as natives understood such rights, ended with each encounter of trekkers with native inhabitants. The "natural policy" was underway.[8]

Even in cases where property rights were designated by treaties signed between natives and Europeans

> . . . all the treaties were in reality valueless. In the first place, the chief had no power to alienate land; in the second place, what he thought he was doing was to give the European the usufruct, not the possession, of it. In their ignorance of tribal customs, Europeans of all nations made what they thought were contracts by which the land became theirs, and to this day they all argue that their particular colony was acquired by genuine treaty. What really happened was that two totally different conceptions of land ownership were in conflict, and neither side knew or recognized the conflict.[9]

But, the astute European colonists eventually identified the nature of this conflict and began implementing measures they hoped would resolve it. Such measures were designed to assure white settler dominance and would guarantee European institutions of private property and capitalism would become firmly implanted.

II

Creation of Reserves under Colonial Rule

WITHOUT GOING INTO too much detail about the creation of reserves, a few points are pivotal to the analysis. Although Dutch conception of reserves for Africans was born during the Great Trek in the 1700s as Dutch Boers advanced into what they later called Natal, the Orange Free State, and the Transvaal, the government creation of "native reserves" was conceived by the British. The first

government reserve created was the Mfengu community in 1836. It was the brainchild of Sir Harry Smith, the then Governor of the Cape Colony.[10]

The Mfengu were a tribe who had escaped annihilation in northern Natal in a holocaust spearheaded by Shaka, chief of the Zulu tribe. He killed or drove away from the land a multitude of African tribes in his quest to expand the Nguni empire of which he was the undisputed leader.[11] The Mfengu settled among the Xhosa on the eastern frontier of the Cape Colony. But, during 1835 and 1836, they witnessed a frontier war between their hosts and the white farming community apparently over rights to the land across the border of the Cape Colony, the Kei River.[12] To resolve the dispute, the Smith administration invited the Mfengu, a peaceful and submissive tribe, to settle within the Cape Colony across the Kei River on land formerly occupied by white farmers. The settlement formed by the Mfengu supposedly would serve as a buffer zone between the white border farming community and the tribesmen living on the other side of the river. Thus, the first government-established native reserve was created. Perhaps despair ". . . of being able to maintain peace by any other means" accounts for the unparalleled action taken by Sir Harry Smith.[13]

The Cape example proliferated. For instance, in Natal, another British colony, seven reservations had been created by 1849. By 1852, native reserve lands in Natal encompassed 2 million hectares.[14] By the middle 1800s, Africans had become accustomed to demarcation lines drawn by European colonists, but they generally were ignored. Consequently, the number of natives in white areas grew as many became squatters on private or Crown land, oftentimes paying rent to absentee landlords, while others purchased land in white areas. Still, more Africans were incorporated into white areas by British annexation or they had been permitted to remain after conquest to become farm servants.[15]

To address the inevitable problems of African influx, unauthorized occupation of "white-owned" land, and contact with whites, none of which had been solved by the cration of reserves by government or conquest by Dutch farmers, Boer and British governments appropriated over 1852–1903 still more land for African occupation. For example, in Natal, the British government designated 1.5 million hectares in Zululand. Boers in the Orange Free State appropriated 100,000 hectares in the Transvaal which remained fixed at that quantity over both British and Boer administrations.[16]

Boers were far more restrictive in their appropriations relative to African population size. They

> . . . delimited small reserves (less than 100,000 hectares all told), where, at the beginning of this century, only 17,000 people lived, compared with 200,000 on White farms. In the Transvaal, Africans were for the most part left in the undisturbed possession of the malarial regions of the north and east.[17]

With the creation of the reserves, which were mainly lands on which African tribes were living when they were initially defeated by the Europeans, the "natural policy" in South Africa from the Boers' viewpoint had been given its legal form. The Boers, with every conquest and subsequent treaty violation by Africans who viewed treaties as usufruct, had been convinced before the creation of reserve areas that the laws of God were opposed to equal rights for natives and Afrikaners and that such equal rights violated common sense. The British, on the other hand, apparently pragmatic in their handling of the natives, considered reserve areas as the most humanitarian and efficient means of managing the African problem at the time. But, the Dutch and British shared at least one important similarity regarding Africans: they both viewed reserves as a solution to interracial conflict while avidly pursuing their own brand of manifest destiny in South Africa, which Dutch settlers called the "natural policy."

It is possible that territorial segregation would have provided a long-term solution to many interracial problems had South Africa remained an agrarian society sparsely populated by African and European farmers. But the circumstances changed in the second half of the 18th century which lifted South Africa from her agricultural rut and weakened the resolve of the Europeans in minimizing their contact with the native inhabitants.[18]

III

Movement Toward Industrialization

BEFORE THE 1860s, South Africans, natives and Whites alike, engaged in subsistence agriculture for a living. The spectacular diamond discoveries at Griqualand West (now known as Kimberly) between 1867 and 1871 destroyed the strictly agriculturally-based economy and set it on a course toward industrialization.[19] With these discoveries, and the new avenues for making money they introduced, Europeans (Dutch and British) began to lose their taste for territorial segregation in the strictest sense. With new times and circumstances, both European governments encouraged Africans to come into white areas to work as the white labor supply was too inadequate to address labor needs. Cecil Rhodes, diamond magnate of Kimberly and prime minister of the Cape Colony from 1890 to 1895, levied a nominal tax on Africans in reserve areas to force them to seek employment.[20] From the viewpoint of mining officials who had succeeded in urging Rhodes to impose this tax, the employment of greater numbers of African men would bid wages down and enhance profit margins.[21] Mining capitalists went beyond canvassing government authorities to increase the African labor supply. They also jointly established recruitment agencies in African areas from within and beyond South Africa's borders, from areas now known as Malawi and Mozambique.[22]

By the time of the discovery and exploitation of minerals in South Africa, whites, in the main, had long accepted the notion that the abundant supply of cheap, disenfranchised African labor was paramount to the development of the white-controlled economy. With this recognition

> . . . the White community was . . . building up a set of values in which it was considered normal that the state, rather than the private sector, should assume responsibility for ensuring an adequate supply of labor.[23]

IV

White Grievances, Apprehensions, and Squatter Laws

As South Africa was fast moving into an industrial revolution, many whites in the British and Boer colonies remained employed in agriculture where they faced competition from natives who continued to buy, lease, or squat on Crown or private lands. White grievances, apprehensions and clamor intensified as they agitated government authorities to take steps to become more militant against a myriad of problems which natives posed. These problems included competition in the produce market, purchase of land in the Cape Colony and Natal,[24] renting of land to natives by absentee landlords in the British colonies, locking up of land by land-holding companies that speculated on future land values and mineral discoveries, the right to vote by Africans based on property ownership which was allegedly influential in the Cape Colony until 1913, and a labor shortage.[25]

The most important of White grievances was squatting (for communal or individual tenure) by renters which aggravated the labor shortage.[26] At the time, squatting was believed to undermine white farming productivity and the industrial revolution. Independent, rent-paying squatters (farming natives or Kaffirs) were unlikely to accept low cash or kind wages from white farmers or mining capitalists who sought to maximize their profit margins. Instead, many Kaffirs chose the more advanced economic phenomena of self-interest and private enterprise.

Numerous laws limited squatter numbers on private farms and levied either rents, taxes or both upon squatters in British colonies and Boer republics. These laws included the squatters laws of Natal (1855), the Orange Free State (1895) and the Transvaal (1895), all of which were ineffective. Magistrates and many White farmers viewed these laws as unenforceable because they required the use of force, even violence against violators. The most punitive of the laws were those enacted in the Orange Free State which were ". . . stringent, Draconian and violent," authorizing "amazing punishments."[27] The enforcement of these laws some believed would have incited discord of major proportions among white farmers. John X. Merriman, for example, in a debate in the parliament of

the Union of South Africa on the passing of the 1913 Land Act, argued "he had no doubt that there would be rebellion. They would have platforms swarming with people who would say that they could not grow one bag of mealies without the natives."[28]

The most effective of the anti-squatting laws were those legislated in the Cape of Good Hope: the Locations Acts, the 1876 Act (6 of 1876), the 1884 Act (37 of 1884) and the last of the acts before the Union of South Africa was formed, the Private Locations Act of 1909 (32 of 1909).[29] These laws were more effective because they made squatting a financial burden to those who persisted and at the same time benefited government through an increase in tax revenue and helped White farmers through an enhanced labor supply at cheap wages.[30]

In the Cape of Good Hope, the Locations Acts reduced independent squatting cultivators to farm laborers by licensing only squatters who supplied their labor to white farmers. For unemployed squatters who lived on white farms, a tax was imposed on them to assure at least their part-time employment. The 1884 Act placed greater pressure on squatters by exempting from taxation natives employed on a long-term basis. Finally, the Private Locations Act of 1909 distinguished between natives living outside the reserves. By this act, such natives were classified as regular lessees (exempted natives), ordinary tenants, labor tenants, and servants. The intent of this act was to reduce the number of labor and ordinary tenants by requiring the former to be licensed at a cost of ten shillings a head per year and the latter at two pounds per year.[31] The Private Locations Act of 1909 was particularly successful in its purpose, but so had been the others in the Cape Colony.

Most efforts to implement similar laws in other British colonies and Boer republics were unsuccessful because the laws were not the same as in the Cape Colony and were unpopular and unacceptable. Consequently, they were withdrawn. In Natal, for instance, the Agricultural Development Bill sought to expropriate land occupied by natives on white-owned farms. An act in the Orange River Colony made sharecropping ("farming on the half") illegal and reduced all colored people who squatted to servants. Neither of these acts would benefit whites in their quest for economic well-being. The Agricultural Development Bill in Natal would have reversed, if only temporarily, the white economic development effort and diminished the net worth of white farmers. In the Orange River Colony, farm profits would have been reduced by an end to sharecropping. Moreover, the Imperial Government could not resolve the issue of where to relocate coloreds and their livestock. The issue of reserves for coloreds was never seriously considered because such individuals posed no threat to the political, social and economic aspirations of whites and such an appropriation would further diminish white control over the land. The most successful of anti-

squatting laws largely atoned the discontent expressed by poor white farmers, but such atonement was mainly confined to the Cape Colony until South Africa became a nation firmly under Boer rule.

V

The Act of Union and the African Labor Supply

EXACTLY EIGHT YEARS after the signing of the Treaty of Vereeniging, May 30, 1910, the Union of South Africa came into being. Among the first issues addressed by the parliament of the new union was labor shortage. The Boers now with control of a unified parliament, could forge a new economic, social and political order through the enactment of far-reaching legislation. Before 1913 several laws were passed by the new parliament to implement a systematic native policy. The laws would allow for economic growth largely through the creation of a cheap, abundant and disciplined supply of African labor while permitting whites to further solidify their dominance of all the economic resources of the developing nation. This aspiration manifested itself in such measures as the Mines and Works Act (1911) and the Natives Labor Regulation Act (1911).[32]

It is worth noting that in the early 1900s, prior to the enactment of the Natives Land Act (1913), No. 27, numerous other factors were instrumental in creating an ample supply of labor to bolster economic development.

First, numerous Africans failed in their efforts to succeed at farming while many who were profitable were forced off their land by white farmers who sought to meet the increased demand for foodstuffs in mining towns. The increased demand for farmland also led many whites to fence off vast areas of farmland with so-called "jackal-proof" fencing, thereby sharply curtailing the number of African squatters and nomads who roamed the countryside with their livestock. Thus to provide for sustenance while, at the same time, meeting the financial burden placed on them by white authorities for the right to live in White areas, former African farmers, squatters and nomads were compelled to supply their cheap labor to white employers who dictated terms of employment.

Second, African population growth on a dwindling supply of land greatly diminished the agricultural potential of reserve areas. With the increased white demand for land which reduced the areas reserved for Africans, young tribesmen could only expect an allocation of land (land grant) from the tribal chief after the death of an elder tribesman whose land had not already been expropriated. Until such deaths occurred, young tribesmen were compelled to seek cash wages from white employers. It should be emphasized that a land grant was no assurance that ablebodied men could profitably cultivate the land in reserve areas, as increased pressure placed upon the land by population growth, overgrazing, and

an inability to adapt their farming methods to the changing soil conditions required most to join the migrant labor system. For whites a very convenient cycle was created by their increased demand for farmland. According to Nattrass

> This cycle leading from low productivity to low farm incomes—to migrant labor—to still lower productivity and lower farm incomes continued; and when coupled with increasing legislation that limited the access of Africans (particularly those who were not seeking work) to White areas, entrenched the system of migrant labor so characteristic of the modern South African economy.[33]

A third factor to consider is that the position of the African farmer was further eroded by the rinderpest outbreak (1896–1897) which devastated their livestock. White farmers also were affected but the losses were catastrophic to Africans because many tribes held their wealth in their stock of cattle.

Fourth, the growth of the railway system benefited only white farmers. The railways even today are noticeably absent in reserve areas.

VI

The 1913 Land Act and Its Effects

UNDOUBTEDLY the most complete and methodical means yet conceived in South Africa for dealing with the dual issues of labor shortage and land distribution was the portmanteau legislation called the 1913 Land Act. The Bill's stated purpose was "to make further provision as to the purchase and leasing of land by Natives and other Persons in the several parts of the Union and for the other purposes in connection with the ownership and occupation of land by Natives and other Persons."[34] Through the 1913 Land Act, slightly more than 9 million hectares of land in the provinces of Orange Free State, the Transvaal, Cape Province, and Natal were declared inalienable black territory. This was land blacks had always occupied and had come to be called reserves. The enactment of this act made it illegal to sell land outside the reserves to blacks and also ended squatting and sharecropping by blacks on white farms. Blacks who remained on white farms after the act went into effect were reduced to labor tenants.[35]

The effects of the 1913 Land Act were many and varied. First, it limited African rights to land ownership to reserve areas on a quantity of land that was, from the start, incapable of sustaining the millions of people who lived there. Even today, when African farming methods have modestly improved, there is little agricultural potential in the homelands. Probably the most salient and revealing features of homelands agriculture is that, in 1980, it contributed R207.6 million (.3 percent) to South Africa's Gross Domestic Product contrasted with R5,494.4 million (8.7 percent) white.[36] These data suggest that the agricultural potential

of the homelands was about 3.6 percent of White agriculture in 1980. Moreover, they lend credence to Nattrass' observation that:

> The two sectors of South African agriculture are so different that when one moves from a White-owned modern capital-using farming sector to a Black subsistence oriented and tribally organized farming area, it is like stepping through a time warp.[37]

Second, the 1913 Land Act legalized and regularized territorial segregation and the "natural policy." Early white settlers, in their many conquests, sought to minimize contact with natives as they settled the territory and merely demarcated the land they wished natives to occupy. By the time of unification and the 1913 Land Act, whites had fully recognized the economic potential of the African labor supply and therefore formalized the "natural policy" by making racial segregation throughout the fledging state official government policy, not yet called apartheid.

Third and foremost, it increased the supply of cheap African labor to South Africa's predominantly white-owned industry. Restricting the majority of Africans to a fixed quantity of land assured that population pressures on the land would diminish agricultural potential in the reserve areas. Inevitably, Africans would be obliged to supply their labor at low rates of pay, thus fostering the economic expansion of South Africa's white-oriented industry. This is precisely what happened throughout the economic development of the Union, later the Republic of South Africa, when in 1960, South Africa ceased to be a member of the British Commonwealth.

It seems apparent that the 1913 Land Act is akin to a long line of ancestors, but none had so clearly and profoundly made African landlessness the cornerstone of economic development. All that was needed to design and implement this landmark legislation was the Treaty of Vereeniging which transferred South Africa from British to Dutch control. With the act of union and the subsequent enactment of the 1913 Land Act, the Dutch were brought closer to the uniform and ideal native policy they had so long sought. It is clear from the foregoing that before the formation of the Union and the enactment of the 1913 Land Act, white South Africa was divided against itself, small farmers against "monied farmers" and absentee landlords, European extremists against European liberals who feared the violent punishment of squatters and encouraged moderation, Dutch colonists against British colonists, and so on.

In this environment white South Africa had no unified, clear-cut vision of its economic destiny. It had no blueprint or masterplan of how its future economic development would be shaped. The 1913 Land Act was a masterplan, not simple schematism, ably and eagerly pursued by those who acquired control of South Africa and who also supported African landlessness as the foundation of the fledging nation's economic development. In all probability, the 1913 Land Act

is the single most important factor in South Africa's history that is responsible for its high white concentration of land ownership. Thus the consequences of this act largely account for South Africa's dubious acclaim as one of the most economically advanced nations in the world.

NOTES

1. R. Daniels, "The Nature of the Agrarian Land Question in the Republic of South Africa," *American Journal of Economics and Sociology,* 46 (January, 1987), pp. 2–3.

2. P. L. Wickins, "The Natives Land Act of 1913: A Cautionary Essay on Simple Explanations of Complex Change," *South African Journal of Economics,* 49 (February 1981), p. 106.

3. *Ibid,* pp. 11–12.

4. *Ibid,* pp. 13–15.

5. The terms Boer (farmer) and Afrikaner came to be used interchangeably among the new Dutch settlers. Boer was a name given by the Governor of the Cape Colony, Wilem Adriaan Van Des Stel, to Dutch farmers who advanced into the interior of the new land. Governor Van Des Stel allegedly resented trekkers for this advance because it interfered with his attempts to monopolize the produce market along with his friends. The term was elevated by trekkers to a badge of honor, denoting a people reared on southern African soil, imbued with a patriotism centered in the new land into which they carried the cultural virtues of western Europe. See *South Africa 1984: Official Yearbook of the Republic of South Africa* (Johannesburg: Chris Van Rensburg Publications, 1984), p. 38.

6. It is worth noting that Britain's indifference toward the Orange Free State and the Transvaal was short-lived, as economic and political events in these republics sparked renewed British involvement. In the first place, many settlers in the Cape Colony resented the balkanization of South Africa, in addition to many people in the Orange Free State and the Transvaal who espoused the notion of federation. Second, the spectacular diamond discoveries in Griqualand West (now known as Kimberly) led to bitter disputes over the ownership of the area between both Boer republics and such African tribes as the Tswana and Griqua (a mixed Hottentot and half-breed tribe led by Chief Waterboer). The land was awarded by the British to Waterboer, who was promptly persuaded in 1871 to allign the Griqua with Britain in the creation of the Crown Colony of Griqualand West. This action left the Transvaal and Orange Free State bitter and suspicious of British intentions. Nevertheless, Britain forged ahead in its efforts to federate the Boer republics and, when all diplomatic efforts failed, the Transvaal was annexed in 1877. The Transvaal annexation led to the defeat of British forces at the Battle of Majuba Hill in what is referred to as South Africa's First War of Independence. Despite this defeat Britain's political and economic interests in South Africa intensified as the rise of colonial ambition in Europe brought Germany, France, Belgium, and Portugal into the struggle for Africa. Among the most important factors which account for Britain's continued efforts to expand its influence in southern Africa are: Germany's annexation of the territory now known as South West Africa (Namibia), the discovery of the world's richest gold-bearing reef on the Witwatersrand in 1886 (where Johannesburg now stands), and the unacceptable economic and political status of British subjects (Uitlanders) on the Witwatersrand, who had been accused in the Jameson Raid of 1895–96 of attempting to overthrow President Paul Kruger's government in the Transvaal. When diplomatic efforts to resolve the dispute over the status of the Uitlanders proved unsatisfactory, Britain launched the Anglo-Boer War (the Second War of Independence). The Boers were forced to become a part of the British Empire at the conclusion of the war in 1902. The Treaty of Vereeniging was negotiated on May 31, 1902, the treaty on which the Union of South Africa was formed eight years later. The most important terms of the generous treaty were these: responsible government would be

granted by Britain upon settlement of the country; the Dutch language was recognized as equal to English, which already was the case; non-European franchise was postponed until after the granting of responsible government; and the British Government agreed to assist in the economic reconstruction of the Boer Republics. For a more in-depth discussion of the early history of South Africa, the reader will do well to consult Marquard, *op cit.*, pp. 11 *ff* and *South Africa 1984: Official Yearbook of the Republic of South Africa, op cit.*, pp. 3–65.

7. L. Marquard, *Peoples and Policies of South Africa* (London: Oxford Univ. Press, 1967), p. 14.

8. Daniels, *op cit.*, p. 10.

9. Marquard, *op cit.*, p. 15.

10. J. Nattrass, *The South African Economy: Its Growth and Change* (Cape Town: Oxford Univ. Press, 1981), p. 190.

11. *South Africa 1984: Official Yearbook of the Republic of South Africa, op cit.*, pp. 199–200.

12. Nattrass, *op cit.*, p. 190.

13. Marquard, *op cit.*, p. 41.

14. Nattrass, *op cit.*, p. 190 and Wickins, *op cit.*, p. 109.

15. Wickins, *op cit.*, pp. 107–9.

16. *Ibid.*, pp. 109–10.

17. *Ibid.*, p. 110.

18. Marquard, *op cit.*, p. 41.

19. *South Africa 1984: Official Yearbook of the Republic of South Africa, op cit.*, p. 40 and Nattrass, *op cit.*, p. 60.

20. Marquard, *op cit.*, p. 41; Nattrass, *op cit.*, p. 68.

21. Nattrass, *op cit.*, p. 67.

22. *Ibid.*, pp. 67–68.

23. *Ibid.*, p. 67.

24. Wickins, *op cit.*, pp. 110–20.

25. *Ibid.*, p. 112.

26. *Ibid.*, p. 113.

27. *Ibid.*, p. 114.

28. *Ibid.*, p. 114.

29. *Ibid.*, pp. 114–15.

30. *Ibid.*, pp. 114–15.

31. *Ibid.*, p. 115.

32. These acts, in addition to the Native Registration and Protection Bill (1923) and the Natives (Urban Areas) Act (1923) shared common objectives: to implement a single native policy, formalize the long established view of the "natural policy," assure an adequate labor supply, and allow for economic growth and dominance of the economic resources of the developing nation by Whites. See Daniels, *op cit.*, p. 10 and Wickins, *op cit.*, p. 10 and Wickins, *op cit.*, p. 107.

33. Nattrass, *op cit.*, p. 69.

34. L. Marquard, *Peoples and Policies of South Africa* (London: Oxford Univ. Press, 1967), p. 38.

35. Wickins, *op cit.*, pp. 107–29. J. Selby, *A Short History of South Africa* (London: George Allen and Unwin Ltd., 1973), p. 247; M. S. Jacobs, *The Law of Expropriation in South Africa* (Cape Town: Junta, 1982); Marquard, *op cit.*, p. 38.

36. Nattrass, *op cit.*, pp. 99–100 and *South Africa 1984: Official Yearbook of the Republic of South Africa, op cit.*, p. 233 and p. 930.

37. Nattrass, *op cit.*, pp. 99–100.

AFTERWORD

The serious reader can read more about Henry George's analysis of the world-wide problem of landlessness and wage slavery, and his solution, a free economy in a free society governed by ethical democracy, in his books, *Progress and Poverty, Social Problems, Protection or Free Trade, The Land Question* and *The Science of Political Economy*. These may be found in your local library or bookstore. They may be purchased from the publisher, the Robert Schalkenbach Foundation, 41 East 72nd Street, New York, NY 10021. For a free catalogue, write the foundation.

George has been fortunate to have several brilliant biographers. Two you may especially enjoy are *Henry George: An Essay* by Albert Jay Nock (and Dr. Nock's tabloid biography entitled *Henry George: Unorthodox American),* as well as *Henry George* by the historian Charles Albro Barker, which many consider the definitive biography. The official biography, *The Life of Henry George* by Henry George Jr., is unsurpassed as a reference source.

On George's system of ideas, Professor George Raymond Geiger's work, *The Philosophy of Henry George,* is an outstanding exposition. Other excellent works include Dr. Geiger's *The Theory of the Land Question;* Professor Steven Cord's *Henry George: Dreamer or Realist?;* the collective work, *Critics of Henry George,* edited by Professor Robert Andelson; *The Power in the Land* by Fred Harrison and *Alternative America* by Professor John L. Thomas. For specialists in economics there are the works of the committee on Taxation, Resources and Economic Development (TRED), particularly *Land and Building Taxes,* edited by Professor Arthur P. Becker, and *Property Taxation USA,* edited by Professor Richard W. Lindholm.

W.L.
D.B.L.

So long as land is a monopoly, and men are denied free access to it to apply their labor to its uses, poverty and unemployment will exist.

— **Philip Snowden,** British Chancellor of the Exchequer

The whole soil should be public property.

— **Baruch Spinoza,** Dutch philosopher

It is not in the relations of capital and labor; it is not in the pressure of population against subsistence, that an explanation of unequal development of our civilization is to be found. The great cause of inequality in the distribution of wealth is the inequality in the ownership of land.

— **Henry George,** U.S. economist

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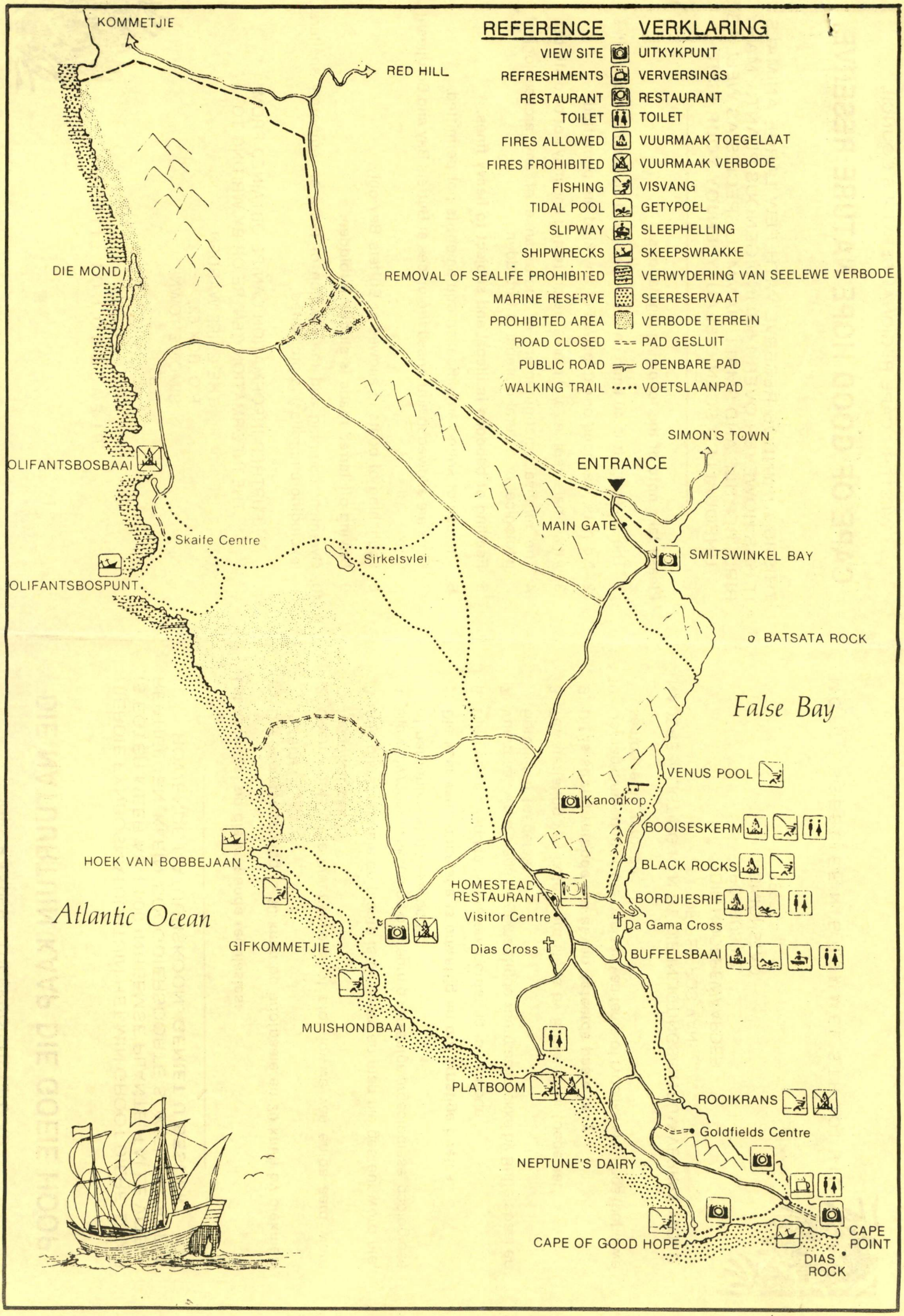
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Write for a free catalogue, listing other books and pamphlets, and describing the *American Journal of Economics and Sociology* from which these articles were reprinted.
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Nywerheidsontwikkelingspunte	◆	Industrial development points
Ontwikkelingstreke	▭	Development regions
Metropolitaanse gebiede	▭	Metropolitan areas

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SELF-GOVERNING TERRITORIES

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KwaZulu	■	Lebowa	■
KwaNdebele	■	QwaQwa	■

ONAFHANKLIKE STATE
INDEPENDENT STATES

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Brakpan	Krugersdorp	Springs
Britz	Nigel	Vanderbijlpark
Bronkhorstspruit	Oberholzer	Vereeniging
Cullinan	Pretoria	Westonaria
Delmas	Randburg	Wonderboom
Germiston	Randfontein	

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SUIDWES-AFRIKA/NAMIBIË
SOUTH WEST AFRICA/NAMIBIA

INLAS / INSET

Skaal / Scale 1 : 5 000 000

MARCH 18, 1992



Voters queue in Cape Town yesterday to take part in the whites-only referendum on ending apartheid

S Africa runs out of budget options

By Philip Gawith in Johannesburg

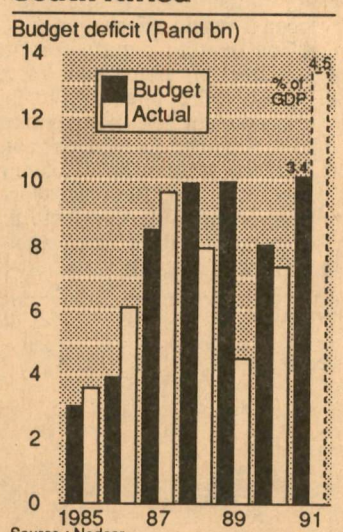
MR Barend du Plessis, South Africa's finance minister, today delivers his government's budget against a background of a weakening economy and escalating demands on stretched revenues.

Mr du Plessis has little room for manoeuvre, with significant sweeteners for the taxpayer unlikely. Instead, the budget is likely to consolidate the trend towards equalising social spending between the different racial groups, with individual taxpayers again being hard hit by the effects of fiscal drag, as pay rises to compensate for inflation suck them into higher tax bands.

The key factor limiting the finance minister's options is the state of the economy, which has been in recession for three years. Economists are forecasting growth of little more than 1 per cent this year and the outlook for revenue growth is poor. Total revenue for the 1991/2 tax year is likely to be about R2.5bn below the original estimate of R76.65bn (£15.5bn).

South Africa

Budget deficit (Rand bn)



Source : Nedcor

Raising taxes is also not much of an option. South Africans are already fairly heavily taxed, with government spending nearly 29 per cent of gross domestic product. It is also unlikely the minister will raise Value Added Tax, currently at 10 per cent, given the political uproar that accompanied its introduction last September.

The consensus among economists is that the work of attracting more revenue will be left to fiscal drag, which has the effect of reducing real incomes.

Scope for borrowing is limited. In the 1991/2 year, the deficit before borrowing is estimated to have reached about R13bn, or 4.5 per cent of GDP, compared with the R10.1bn, or 3.4 per cent, deficit forecast by the government. Some economists argue that the larger deficit had more to do with revenue shortfalls than spending overruns, although they agree such a large deficit is unsustainable.

The size of the public debt has risen sharply in recent years, from 33.9 per cent of GDP in 1990 to over 37 per cent in the second and third quarters of 1991.

Given the lack of flexibility on the revenue side, a large part of any shift towards equalising social spending – on pensions, for example – will have to come from spending cuts elsewhere. President F.W. de Klerk said as much when he opened parliament in February. He spoke of the need for "relatively drastic structural changes...especially in respect of current expenditure."

The government has already announced reforms to the white school system which could save about R400m and their appears to be greater resolve than in the past to curb civil servant salaries which consume about 35 per cent of the budget.

Today's budget is likely to be the last by a Nationalist government – if the reform process stays on track, next year's budget will be the product of multi-party deliberations in an interim government.

Riel Franzsen

1. Early tradition of land taxn.
2. Regional Service Councils (RSCs.)
   No CGT or xfr tax.
3. Non-monetary inc. included
   Is an eg. infrastructure.
4. Wants ltd., local land taxn.
5. No e.g.s of land reform via taxn. – except maybe Taiwan. (I suggest Wisc., N.Y., Pa, Cal. L.A.s. etc.)
6. Taxn. presupposes registrn. of title.
7. Cadastral mapping proposed.
8. "Taxpayer morale" is low. Patriotism needed.

Also: understanding & acceptance.

Universiteit van Pretoria

Migot-Adholla

Credit, Kenya, secured by crop, not land title.

W. Afr. Africa, tenure has evolved naturally, organically, w/o any govt. action. Esp. tree crops, need to exclude others permanently.

Mkts in land have developed.

Universiteit van Pretoria

J. van Zyl + Nick Vink

Raises many non-issues.

Theory, Objectives, Methods of Valn., & Exp. Rates.

1. Theory

2. Objectives: a) Rev. b) Reform

Shift to mkt.-oriented ag. policy, from 1982.

Taxing non-cash income is a disadvantage.

3. Valn.

Unit price of small farms is higher than large — is wrong!

Universiteit van Pretoria

Strasma

Prop. tax pays for U. S. schools.
1911, Mexico land reform w/o compensation.
Land to the tillers.

Lamont

Fed. land tax desirable
Equity effic. + rev.

Universiteit van Pretoria

1. No Fed. solution

2. Scattered CBD; lack of housing w/o. CBD: need to accelerate renewal.

3. Systems view needed.

4. Overzoning possible. LVT makes land use.

5. U.S., focus more at local level (so don't despair)

Need for growth – alt. to redistribution

The mkt. is ~~corrupt~~ democratic. 3d + Miles. vs. Jeffr. St.

---

1. Constl. change

2. Studies needed (Stern; Prop. tax)

   $\frac{1}{3}$ not valued.

3. Thinking of eliminating prop. tax.

Ross
   a. homestead exemption
   b.

Stockfisch
   a. Bad com. tenure laws
   b. Twps. have good tenure.
   c. Props. abandoned near fr-burg.
   d. New Westminster

Riley
a) Demo. mkt. b) Comm. pays more taxes under LVT. c.)

Rabinowitz a) Thy. & practice: b) People who pay the taxes – contract thy.

Gibbs

Mastracke Environment. Vs. "unbridled" dev.

ATTENDANCE LIST : 25 MARCH 1992

LECTURE - USA PROFESSORS

NAME	YES / NO	DATE
BASSON		
BILSKI	Yes (self)	20/3
EDELSTEIN	Yes (Lee)	19/3
FRIEDLANDER	No (away)	24/3
FROST		
GIBBS	Yes (self)	20/3
HARDING	Yes (self)	23/3
HURLY		
IVERSEN		
JOUBERT		
JUSTUS	Yes (Secr)	20/3
KANTEY		
KATZ		
KEEGAN	No (Maureen)	18/3
KREINER, L	Yes - pops in	24/3
KREINER, S		
MARKOVITZ	~~[illegible]~~ Yes (Judy)	24/3
MUIR	No (away)	24/3
MULLER	Yes (Fax)	20/3
OLIVER	No (Louise)	22/3
ORTLEPP	No (self)	24/3
OSBURN	No (Secr)	20/3
PENKIN	Yes (self)	23/3
POWELL		
RABINOWITZ		
ROSS	Yes (Judy)	24/3
SONNENBERG	No (Heidi)	22/3
STOTT	Yes	25/3
SULCAS KREINER	Yes (Susan)	20/3
SULLIVAN		
VAN DEN HEEVER		
VAN DER VELDE		
VAN WYK	No (Secr)	20/3
WIENBURG	No (Secr)	19/3
GEYER	No (Betty)	18/3
HOFMEYR	Yes (Joan)	19/3
CLAYTON	Yes (Maureen)	18/3
RILEY	Yes (	
DANIEL	Yes (Patsy)	18/3
POPKISS	No (Leigh)	19/3

YES - COUNCILLORS: 12 HOD'S : 5 YES

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nd a professor during
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guerrillas and sympa-

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years, were the most
given by a Peruvian
ourt against service
for human rights

s said it still amount-
over-up, complaining
sed-door military trial
at protecting higher-
icials.
seen as a test of gov-
ill to punish soldiers
mes, led last week to
tion of Alfonso Busta-
rime minister. He ob-
resident Alberto Fuji-
lling of the case.
State Department al-
a decision by Fujimo-
u's Congress approv-
that handed the
se over to a military

l lasted only three

. Juan Rivero Lazo, a
ny intelligence chief,
ced to five years in
negligence.
est sentences of 20
to army majors Santi-
Rivas and Carlos Pi-
uevara, accused of be-
ge of the operation.
ommissioned officers
r sentences.
ere charged with kid-
urder, abuse of au-
ligence, forced disap-
and obstruction of

drew four years and
one year for negli-

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Manuel Guzman Cal-
found innocent.
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n July 18, 1992. The
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Blacks dream of owning land

■ With apartheid's end, ANC vows to return 30 percent of the farmland back to South Africans.

By Donna Bryson
Associated Press

DRIEFONTEIN, South Africa — Apartheid reduced blacks in this cattle-and-corn country to trading their labor for little more than permission to live on the corner of a white man's farm.

Now the old ways are ending and farmworkers are dreaming of a new life.

"When I will have my own farm, I'll have my own livestock, my own crops. I'll live well," Abel Ngosi said as he pondered his future in this small farming town.

Laws that denied blacks the right to own property have disappeared. And the African National Congress, expected to lead the government after the country's first all-race election April 26-28, vows to transfer 30 percent of the nation's 300 million acres of farmland to blacks in the next six years.

But major obstacles remain between Ngosi, a tenant farmworker, and the farm he hopes to own one day. Few whites are willing to give up the land they won under apartheid, and few blacks have the means to strike out on their own.

"I took over from my father as a farmworker," Ngosi said, speaking through a Zulu translator. "My father's been working so long. And I have been, too. [But] the fact that these farmers are paying us so little prevents us from buying land."

Served eviction notice

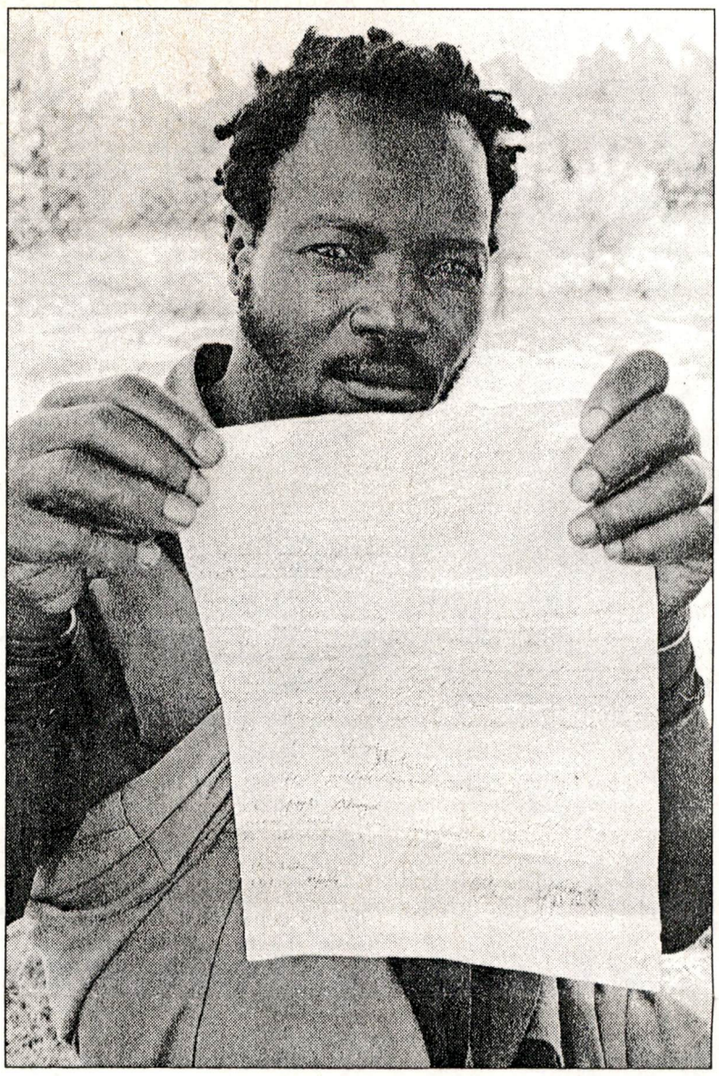
Some black farmworkers don't even receive wages, just a place to stay and a small plot of land for their own vegetables.

Ngosi, 28, has spent most of his life working on farms. But he and his extended family of 11 were recently served an eviction notice.

"The farmer just decided to say to me, 'There's no more money to pay you. You must leave,' " he said.

In making redistribution a priority, the ANC is acknowledging that black hunger for land helped drive the campaign against apartheid. But reformers also have had to acknowledge white desire to keep the land.

Even if the goal of transferring 30 percent of farmland is met, most land would still be in the hands of whites, who only comprise about 12 percent of the population but own 85 percent of the land.



Associated Press

Evicted. Joseph Sibanyoni displays eviction notice he got in December from a white farmer on whose land he had worked for 26 years.

"If you were in a position of losing your land, I think you would fight too," said Dries Bruwer, a white farmer who grows fruit and vegetables on a 260-acre farm in the northwestern part of the country. He said farmers would take up arms if they had to, but also have taken their case to the ANC.

"It's a matter of balancing these pressures," said Derek Hanekom, an ANC agricultural policy strategist. "The pressure [from blacks] for land is a legitimate one. Irrespective of what kind of resistance there might be from the white community, we have to commit ourselves to an effective program."

Beginning with the 1913 Land Act, the South African government pushed blacks off land to separate the races.

Special court proposed

The ANC has proposed a special court to handle cases of blacks with claims to plots of land they or their families once owned. Relatively few people are likely to see immediate benefits, however.

To simply seize land could bring a violent reaction and alienate international lenders and foreign donors. Instead, the ANC envisions buying land from whites and selling it to blacks at subsidized prices. Government land also would be put on the market.

To increase the number of potential sellers, the ANC would scrap laws that have provided subsidies and debt relief to white farmers. It also would press banks to make loans to blacks.

20 May 92 (±1) p. 2

Land reform comes to Zimbabwe

Blacks will be resettled on half of the white-owned farmland

By Angus Shaw
The Associated Press

HARARE, Zimbabwe

Lawmakers were jubilant yesterday after voting to seize white-owned farms for black peasants, and even opponents of the drastic measure could not deny the need for land reform.

President Robert Mugabe is expected to sign the bill into law this month. The measure had been assured of passage because his Patriotic Front holds the majority in parliament.

The move is viewed as an attempt by Mugabe to revive his support among Zimbabwe's 10 million blacks as the country faces economic problems and drought.

Mugabe led white-ruled Rhodesia to independence as black-ruled Zimbabwe in 1980 after a seven-year war. At independence, he promised massive resettlement of blacks on farmland. But by the end of last year, only 160,000 blacks had been moved to land sold willingly by white farmers.

Mugabe says his aim is to settle blacks on 12 million acres, about half the white-owned farmland. Farmers whose property is taken will have no right of appeal.

The agriculture minister would fix the price of targeted land, but would not compensate for improvements such as barns, dams and access roads.

The agriculture minister, Witness Mangwende, urged white farmers to cooperate and said compensation would be fair.

Black lawmakers burst into applause and began ululating after the measure was unanimously approved.

But white lawmaker Peter Hewlett, who was not present for the vote, said the law would destroy Zimbabwe's agriculture-based economy.

Quick end to apartheid predicted

23 May 92 (±1)

By Sahm Venter
The Associated Press p. 2

CAPE TOWN, South Africa

Bolstered by white support for reforms, President F.W. de Klerk and Nelson Mandela said yesterday they would move quickly to negotiate an end to apartheid.

"We should not waste any time," de Klerk told reporters two days after whites voted in favor of talks with black leaders on ending white-minority rule.

"The uncertainty that bothers so many will only go away if you put a negotiated solution on the table," he said.

Mandela, at a separate news conference, repeated his African National Congress' demand for an interim government to oversee the transition to multiracial democracy, and he said it should be installed this year.

"The purpose of the interim government will be to supervise the transition from an apartheid to a democratic state . . . we are demanding that should be done as soon as possible," the black leader said.

De Klerk has abolished major apartheid laws in the past two years and called Tuesday's whites-only referendum to gauge support for continued reforms. Whites voted 68.7 percent to 31.3 percent in favor of change, giving de Klerk the mandate he needed to carry out his most important move: negotiating a new constitution to give the black majority voting rights.

Major issues still must be resolved between de Klerk and black leaders, and there is not likely to be a swift transfer of power.

De Klerk refused yesterday to put a time frame on a negotiated settlement with the black majority.

He has agreed to the concept of an interim government but disagrees with the ANC on how long it should rule. De Klerk also says the new constitution should contain guarantees protecting rights of whites and other minorities. The ANC opposes this.

In addition, both sides face opposition from right-wing conservatives who have vowed to fight rather than live under a black government.

The conservatives are refusing to take part in the Convention for a Democratic South Africa, comprised of 19 political groups negotiating reforms. It first met Dec. 20-21 and is expected to meet again in April.

CODESA

Notes, S. Africa

(For books, see "bknts.")

1. The worldwide tyranny of conservative orthodoxy.

S. African economists follow the American economics literature, and found their orthodoxy on appropriate quotes from Tullock, Buchanan, and other well-worn defenders of the status quo. Just validate existing property rights, chant "free market," and deal. It is time to forget demands for restitution of lands only recently stolen from blacks under apartheid, just as orthodox U.S. economists urge us to overlook the origins of land claims here. Clusters of black landowners in designated white areas were called "black spots." The owners were evicted, and herded into overcrowded "homelands," aka "Bantustans," where xx% of the people subsist on 13% of the land area, much of it marginal or worse. They don't even own any of that: it is held in trust for them by central government.

2. Bill Keller, 1993, "Cracks in S. Africa's White Monopolies." NY TIMES, 17 June, C1.

4 corp giants control 80% of S.A. value of stocks on Jo-burg exchange. Anglo-American 42.4%; Rembrandt Group, 15.2%; Sanlam, 13.2%; S.A. Mutual, 10.4%.

Sanlam just announced its industrial centerpiece, a conglomerate called Gencor, is breaking up into an oil co., a paper co., and shrinking back into a mining house, where it started. It is selling its control of Metro Life Ins Co to a black consortium. Would create large pool of black-controlled K.

ANC has given up idea of nationalizing monops; will rather break them up. Tito Mboweni is ANC chief Ecst. Says corps "have a massive capacity to corrupt the future state. They cannot last."

Sanlam is Afrikaner. Began as S.A. Nat. Life Assurance Co. Soon was buying controlling interests in other cos., making them Afrikaner-controlled. Now, 85% of Metro's policyholders are black. This way they can buy into the S.A. economy, as Afrikaners once did.

3. Scott Kraft, 1993. "ANC crash course in capitalism." LAT, 23 July, p.1.

ANC is abandoning Marxism, learning the ways of capitalism. They want to discourage flight of white capital. They are even telling followers things like there are no quick fixes, and blacks can't prosper by taking from whites.

Election scheduled for 27 April 94. Blacks want housing, jobs, and redistribution. (The big three! LVT delivers all!)

Now, RSA controls many prices, e.g. gasoline, foods. State runs the broadcasting co., monopoly airline, utilities, telephone. Cradle to grave social benefits.

3 straight years now of non-growth. Kraft blames inefficiency of state-run cos. (Looks to me like their share of world depression.)

Peter Orgell, former N.Y. investment banker, teaches ecs. to ANC at Univ of Cape Town. At least, to 12 leading ecsts. Theme: profit makes things move.

Derek Keys, finance minister for de Klerk govt., finds ANC ecsts pragmatic, realistic. ANC grass roots is different, more homicidal and vengeful.

Congress of S. African Trade Unions, large and black, industrial union, mining, auto, etc. Wants to break up large conglomerates.

Tito Mboweni, dep dir, ecs dept, ANC.