

EXCLUSIVE

# Economic Squeeze Propelling South Africa To War

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## SOUTH AFRICA

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The Union of South Africa is now finding itself in an economic squeeze which is quickly forcing it to look for an answer in a march against its neighboring African nations. Since last spring, the New York banks have shut South Africa out of the Eurobond market and out of private lending avenues. Throughout the summer riots provoked by networks linked to the Washington, D.C.-based Institute for Policy Studies frightened off investment. The South African budget of March 30 makes it official that the country is now effectively cut off from the international money market with no new borrowing planned despite a desperate need for credit.

While South Africa's economy reaches a point of negative growth, the budget calls for large increases in military spending and debt service payment to be met with the issue of low interest government stock for compulsory purchase by pension funds and insurance companies, draining the private sector of scarce capital. An import charge of 15 percent is now crippling production as well as consumption. The combined measures are a formula for an early bout of intense stagflation, driving South Africa into war as the sole means to recoup in spoils what its economy can no longer produce as profit.

What this means strategically is that the internal logic of the South African economy now dovetails with the policy of the Trilateral Commission's Carter Administration policy: the use of southern Africa as a flash-point for a nuclear showdown with the Soviet Union. Spurred to an *anschluss* policy, South Africa would drive into Tanzania, Zambia, Mozambique and / or Zambia, all countries which would readily gain the support of the Soviet Union under attack.

Rockefeller interests have also been specific on their domestic policy for South Africa: the policy of the *bantustan*. The vast bulk of the black population in the country is being shipped to underdeveloped tribal homelands where they will be used for labor-intensive industry under state control. In terms of such population's prospects for survival it is not an exaggeration to characterize the *bantustans* as concentration camps modeled on those of the Krupp slave works.

Rockefeller policy for the country's mining and industrial sector involves a turning away from productive industrialization to pure military production and increased extraction of raw materials to be carried out by

a recycled force of semi-skilled black workers who would replace highly-skilled white workers. Many tasks now performed by skilled white workers would be broken down into two or three jobs performed by semi-skilled black workers who would earn 15 times less the pay. This is the crux of the liberalization campaign against *apartheid*.

This policy was put to South African Prime Minister Vorster last spring by then Secretary of State Henry Kissinger as the country's foreign reserves were falling by one-third in an eight-week slide. In June, instigated riots, easy to stir up in the social tinder of South Africa's "coloured sections," were launched by Institute for Policy Studies networks. With riots raging in Soweto and foreign reserves continuing to slide, Finance Minister Horwood flew to New York and Washington in July to negotiate a loan from a Citibank-Morgan-Bank of America consortium and a standby agreement with the IMF. As a condition to the loan he was told to "improve the condition of urban Africans" with labor-intensive jobs, and to cut imports. More recently, a dozen U.S. corporations — including Citicorp, Mobil, Caltex, Ford, General Motors, and IBW — have issued a joint Statement of Principle for improving the conditions of urban black workers to the same ends.

### *Apartheid Economy*

A brief review of the development of South Africa's apartheid economy helps to explain the extreme vulnerability of the country to a financial operation which leaves no other options but war.

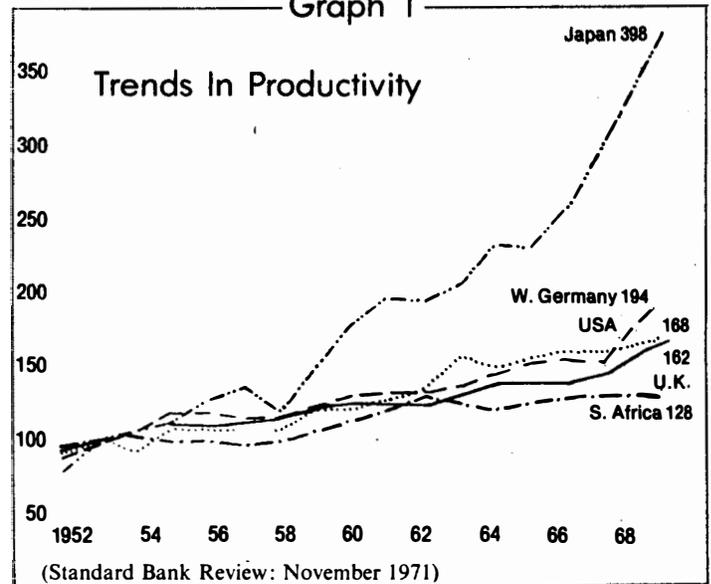
Exceptionally low wage and living standards have historically been built into the economy for almost all of the 80 percent of the workforce which is African, Indian, and Coloured. Until World War II, South Africa was viewed from London and New York as nothing more than the location of some highly profitable mine shafts. Profitability was maintained at the highest level by restricting "social overhead capital" as far as possible to the small white population by means of racial segregation — since formalized as *apartheid*. Meanwhile the African workforce was compelled to sustain itself with a combination of wages insufficient to produce a new generation of workers more advanced than itself culturally and technically, and the social overhead capital afforded by the peasant-tribal subsistence agriculture of the African reserves. In short, the young, the old, the childbearing, and otherwise unemployed elements of the African population lived on these reserves with the help of whatever portion of working family members' wages might be remitted to them. Black townships outside the white cities provided

nominal social services and all-male compounds on the mines provided dormitory residence for those Africans permitted to work in the cities and mines for the duration of their contracts.

The reserves became increasingly overcrowded and overgrazed given the economic function they performed without the benefit of any capital formation process. The report of the government's Tomlinson Commission (1955) called living conditions in the reserves subsistence, as indeed they had been for years before that. In the period after World War II, when the Nationalist Party — the party of the Dutch-descended Afrikaners — wrested power from the English-speakers and proceeded to develop state-sector industry, both the labor requirements of that industry and the exhaustion of the reserves dictated that minimal improvements in the conditions of the townships be made. Otherwise, the system has not been changed except to curtail political liberties and enforce apartheid with greater rigor. A crippling shortage of skilled labor has therefore developed. For the mines, recruitment was done from a catchment area extending further and further into adjoining countries, apparently as a result of the dwindling proportion of total labor power need which the reserves could support.

In the postwar period South Africa carved out markets with goods that were cheap because African labor costs were kept low, while Japan was gaining markets with goods that were cheap because the overall production process used was advanced. As a result South African productivity in the 1950s and 1960s not only failed to take the leaps experienced in Japan, but trailed well behind the undramatic increases in productivity registered in West Germany, Britain, and the U.S. (see Graph 1).

Graph 1



African productivity was calculated in 1961 at roughly 25 percent of white.

Under these conditions, there has been very little margin of "fat" in the South African economy — even in the white population — with which to postpone a political drive for war in the absence of foreign investment. Now with the South African economy reaching a point of negative growth, war is on the agenda.

#### Negative Growth

Although real GDP still registered an increase of 1.5 percent in 1976, manufacturing output showed zero

### Manufacturing And Mining Output

	(PHYSICAL VOLUME, 1970=100)							
	1969	1970	1971	1972	1973	1974	1975	1976
MANUFACTURING OUTPUT	95.6	100.0	102.1	105.2	114.4	121.2	123.7	123.5
PERCENT CHANGE OVER PREVIOUS YEAR		4.6	2.1	3.0	8.7	5.9	2.1	- 0.1
MINING OUTPUT*	96.4	100.0	97.4	90.6	85.4	75.8	71.2	71.1***
PERCENT CHANGE OVER PREVIOUS YEAR		3.7	- 2.6	- 7.0	- 5.7	- 11.2	- 6.1	- 0.1
MINING OUTPUT**	87.7	100.0	101.4	100.3	115.7	127.9	132.0	136.0***
PERCENT CHANGE OVER PREVIOUS YEAR		14.0	1.4	- 1.1	15.4	10.5	3.2	3.0

\* GOLD ONLY      \*\*\* FIRST NINE MONTHS ONLY (1976)

\*\* NONGOLD

SOURCE: SOUTH AFRICAN RESERVE BANK, QUARTERLY BULLETIN, DECEMBER 1976

FINANCIAL MAIL, "FINGERTIP FACTS," NOVEMBER 5, 1976; APRIL 15, 1977

growth and fixed investment fell 5 percent. Real per capita income has dropped by 10 percent over the past two years.

The manufacturing sector is nearing an "impending disaster" with "no signs of an upswing," South Africa's leading business weekly the *Financial Mail* justly observed March 18. The Manufacturing Production Index — which had climbed from a 2 percent annual growth rate after the September 1975 devaluation to a 4-5 percent level for a few months — slid into negative growth throughout the second half of 1976. The last quarter of 1976 shows a 5 percent contraction on the same quarter of 1975.

**\*\*In steel and engineering,** the Steel and Engineering Industries Federation of South Africa reports new orders as "exceptionally slow" in January, with some sectors reporting production or demand touching new lows. Crude steel production in 1976 showed only a 3.4 percent growth over 1975, and some of this growth represents a buildup of inventory to postpone layoffs. The figure is distinctly unfavorable compared with an average annual growth in output of over 5 percent in the period 1968-74. Production for Jan.-Nov. 1976 was 6.4 million tons; Jan.-Nov. 1975, 6.2 million tons.

**\*\*Commercial vehicle sales** dropped throughout most of 1976. The three months ending February 1977 show a 21 percent contraction on the same period in 1976.

**\*\*The value of building starts** expanded during the first half of 1976 and began to contract in the second half. The three months ending February 1977 show a 22 percent contraction on the same period a year earlier, unadjusted for inflation.

**\*\*Cement production,** which continued its expansion through the first half of 1976, dropped during the second half. The quarter ending February 1977 shows a 12 percent contraction on the same period a year earlier.

In contrast to manufacturing, mining production has turned up. Both gold and non-gold mining sectors, stagnant through the first quarter of 1976, moved to higher levels thereafter. This was especially true of non-gold production; diamonds, coal, and copper are the leading foreign exchanges earners. Non-gold mining production was up 4 percent in the quarter ending January 1977 on the same period a year earlier, based on sales of diamonds and coal especially, while mining production including gold was up 3 percent over the same period.

Real per capita income has dropped by 10 percent over the past two years. The flesh and blood meaning of that drop in living standards is made clear by noting that the average African household in South Africa was living for below the breadline two years ago. According to a study carried out by Market Research Africa in the second half of 1975, the average African household had an income of 74 percent of the lowest Household Subsistence Level (HSL) and 60 percent of the Johannesburg HSL. The HSL, calculated at the University of Port Elizabeth's Institute for Planning Research, includes bare minimum allowances for food, clothing, rent, soap, transport, and fuel. As average figures, they reflect an incalculable degree of brutalization of that half of the population below the average income. The 10 percent drop has occurred since the study.

Unemployment is estimated by the *Financial Mail* Feb. 25 to have doubled over the past two years to a figure exceeding one million, almost all of it Africa, out of a total workforce of 10 million. (The government maintains no mechanism for enumerating the number of Africans unemployed, although 70 percent of the workforce is African.) There are now reports of Africans breaking into white homes in rural areas to steal food.

White trade unions in the state sector were taken by surprise to learn, just before the new budget was announced at the end of March, that there would be no salary increases in government employment in the budget. This amounts in effect to a wage cut in excess of 11 percent, since the Consumer Price Index rose by 11 percent last year and is expected to rise more rapidly as a result of the budget.

Most South African workers were bound until now by the Anti-Inflation Manifesto of October 1975, under which labor and management agreed to limit wage and price increases to 70 percent of inflation. The agreement was allowed to expire at the end of the first quarter of this year, as wage demands could no longer be contained.

The budget is not going to inhibit these unions from pressing substantial wage demands when several labor agreements expire around June. The white state-sector workers represent an important pillar of political support for the ruling Nationalist Party; the danger of the wage-cut policy to the government lies more in the erosion of this support than in economic damage through strikes. Nevertheless, the government is preparing broad no-strike legislation.

In the private sector, the Garment Workers Union and the National Union of Clothing Workers, representing 22,000 workers combined, recently won wage increases of 17-27 percent for machine operators, 21 percent for laborers, and 10 percent for the highest-paid skilled workers already earning over \$34.50 per week. Ten unions representing 100,000 metal workers are now in negotiations for increases between 8 and 20 percent for different skill levels. Seifsa's initial response to the demands is that there can be no increases until the economy improves.

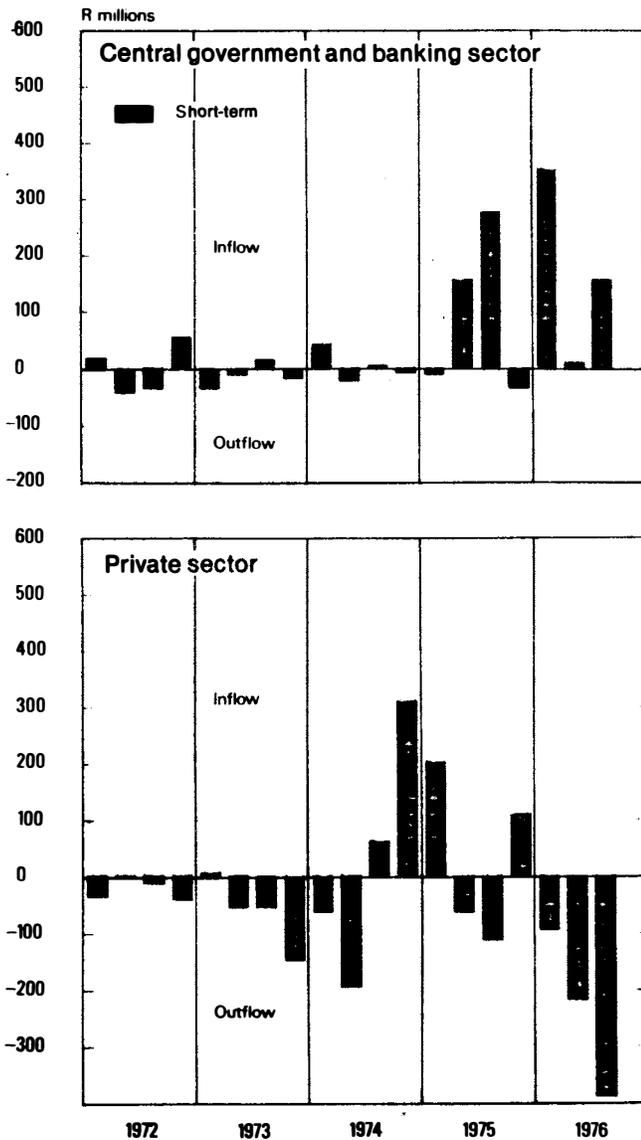
#### *Foreign Reserves and the Debt*

South Africa's foreign reserves have just dropped to their lowest point since 1971, (\$754 million) as of April 1, or just six weeks' imports *excluding* the substantial categories of oil and arms imports. Imports have been dropping at an accelerating rate since last September. Imports for the three months ending February 1977 are 14 percent down from February 1976, but imports still exceed exports by an average \$68 million per month for the three months ending February 1977. The prospects for South Africa to increase its exports are distinctly poor as governments the world over come under increasing pressure to resort to protectionism. An ambitious export drive for South Africa's iron and steel begun last autumn had largely collapsed by February.

Government and bank sector short-term foreign debt has almost quadrupled in the two years from the end of 1974 to the end of 1976, and the balance of payments deficit is now on the order of \$2 billion. Yet there was a net outflow of "short-term capital not related to

reserves" of \$752 million in 1976, according to Finance Minister Owen Horwood. South Africa had a net inflow of long-term capital in 1975 of \$2 billion, a typical sum in recent years, but in 1976 the taps were turned off at midyear.

### Net Foreign Capital Movements By Sector



Source: South African Reserve Bank, *Quarterly Bulletin* Dec. 1976.

#### Attack on State Sector Industry

As in the case of other developing countries such as Turkey and Mexico, Rockefeller policy toward South Africa demands the dismantling of state-sector industry, the sector of the economy whose development would lead to economic recovery. State-sector industry has been the leading edge of the tendency for capitalist development in South Africa, with a commitment to capital formation unmatched in the private sector (about 9 percent per annum as against about 4.5 percent, 1960-1970). As in the case of other developing countries, state-sector industry

also represents the tendency for national independence. It has been built in the period since World War II as a bulwark against the mining and banking sectors dominated by British and U.S. interests, led by the Rockefeller family.

State-sector industry — both government-owned and government-aided enterprises — consists of an extensive network of companies with interlocking directorates whose leading figures adhere to the ruling Nationalist Party. Exemplifying this relationship, the chairman of Iscor, the state iron and steel company, is the brother of Hilgard Muller, South Africa's foreign minister from 1964 until earlier this year, who launched an Outward Strategy of especially agricultural, mining and medical cooperation with the black-ruled states. State-sector industry includes iron and steel, engineering and heavy engineering, oil refining, industrial chemicals and armaments, among others. Iscor is the flagship of state-sector industry and produces 80 percent of domestic iron and steel consumption. The country's total production of crude steel in 1975 was roughly equal to that of Sweden, Western Europe's seventh largest producer, while its 1975 output of pig iron exceeded that of the Netherlands, again Western Europe's seventh largest producer.

The local representatives of the Rockefeller and Rothschild interests such as liberals Harry Oppenheimer and Jan Marais have badgered the government increasingly in the past two years for a larger private-sector role in government economic planning. But the drive against state-sector industry only picked up steam this past January with the launching of a trojan horse operation from the "right" led by a major figure from within the state-sector itself, Dr. A.D. Wassenaar, chairman of South African National Life Assurance, the giant of state-sector financial institutions. In January, Wassenaar published a book attacking "huge capital outlays we can ill afford" while unashamedly defending the mining interests: He complained that gold, and the wealthy personalities associated with gold (the Oppenheimers, popularly called "Hoggenheimers") continue to be identified as the enemy by state-sector forces. In his *The Assault on Private Enterprise*, Wassenaar went so far as to accuse the Vorster government of setting up "a communist state" by developing state industry, and demanded that the government appoint top men from the private sector to economic and financial ministries. Vorster charged in Parliament that Wassenaar's book was part of "an English-speaking capitalist plot to subvert Government and a plea from the Progressive Reform Party (controlled by Rockefeller and Rothschild interests — ed.) for an equal distribution of wealth."

The government responded defensively to Wassenaar's demand that Iscor be sold off. Minister of Economic Affairs Chris Heunis announced February 15 that the government would retain enough equity in Iscor to assure government control and management, and that Iscor had appointed a committee to advise which component companies could be sold without interfering with Iscor's primary objective of producing steel. The attack on the state sector also includes demands for the shutting down of oil exploration — carried out by the government-owned Southern Oil Exploration Corp. (Soekor) in partnership with U.S. independents — and an end to

government plans for a nuclear power plant planned for Koeberg near Cape Town.

*"Pick and Shovel" Jobs*

Following hard on the attack on state-sector industry, the General Secretary of the 220,000 member Trade Union Council, Arthur Grobbelaar, issued a call in mid-February for "public works schemes with low capital outlay to keep unemployed men occupied, and provide them with means to ward off starvation." Funds for the "pick and shovel" jobs, he said, could come from the Unemployment Insurance Fund. The president of the Transvaal Chamber of Industries, representing the core of the country's private-sector manufacturing, has opposed the liquidation of unemployment insurance and the inflation which the scheme would generate, but has conceded that selective steps to create jobs should be taken, such as funding the labor-intensive construction of housing for urban Africans.

Intense debate behind closed doors in government, business and labor circles on the question of capital-versus labor-intensity has gone on for months. Opposition in much of private sector industry and government has been strong, yet this resistance is eroding. The

*Johannesburg Star* leaked March 5 that a majority of the Prime Minister's Economic Advisory Council was now in agreement on providing special incentives to encourage employers to shift from capital- to labor-intensity, and was shaping the forthcoming five-year *Economic Development Programme* to promote the same objective.

*The 1977-78 Budget*

The budget for 1977-78 presented to the House of Assembly March 30 is a compromise austerity budget to meet the demands of Wall Street and the IMF, while doing as little damage as possible to the government apparatus and the needs of state-sector industry. But the consequences of the strategy will be much higher: inflation, the heavy diversion of funds from the private sector, and the relegation of further tens of thousands of Africans to starvation.

At \$10.3 billion — 20 percent above last year's budget estimate — it is a record budget even after allowing for inflation. Debt redemption takes \$1.1 billion (up 72 percent over last year) — an amount over and above the \$10.3 billion called Expenditure. More than \$1.9 billion goes for military spending, up more than 21 percent. The

**Debt Service, Military Expenditure As Proportions Of Total Government Spending**

BUDGET ESTIMATES: (IN MILLIONS OF RANDB; ONE RAND = \$1.15)

	71-72	72-73	73-74	74-75	75-76	76-77	77-78
EXPENDITURE	3352	3603	4447	5502	6562	7534	8989
LOAN REDEMPTION	320	597	360	513	827	576	991
TOTAL SPENDING*	3672	4200	4807	6015	7389	8110	9976
DEFENSE EXPENDITURE***	CA. 300	335	447	754	971	1350	1650
LOAN REDEMPTION**	8.9	14.2	7.5	8.6	11.2	7.1	9.9
DEFENSE EXPENDITURE**	8.2	8.0	9.3	12.6	13.1	16.7	16.5
COMBINED PERCENT	17.1	22.2	16.8	21.2	24.3	23.8	26.4

\* EXPENDITURE PLUS LOAN REDEMPTION

\*\* AS PERCENT OF TOTAL SPENDING

\*\*\* NOT INCLUDING MILITARY EXPENDITURE IN OTHER DEPARTMENTS

SOURCE: FINANCIAL MAIL MARCH 27, 1975; APRIL 2, 1976; APRIL 1 AND 8, 1977

SA FINANCIAL GAZETTE APRIL 2, 1976

SURVEY OF RACE RELATIONS IN SA 1973

budget will cut living standards sharply by denying any pay increase to government employees and cutting subsidies on bread, dairy products, and other staples by \$52 million. Revenue will be raised by further cuts in living standards in the form of a 15 percent surcharge on all imports except for products bound by the General Agreement on Tariffs and Trade, government purchases and oil. The 15 percent import surcharge, which is expected to raise \$460 million, is in effect a partial devaluation. With recent, hefty increases in the price of electricity, steel, and rail transport on the order of 20 percent — yet to have their full impact — the combined effect of all measures could be a rise in the consumer price index from 10.9 percent for 1976 to as high as 17 percent, according to the chief economist of South Africa's Nedbank.

Although the government borrowed \$427 million net abroad in fiscal 1976-77 — most of it from the IMF — the new budget assumes no new international borrowings. Instead some \$598 million will be siphoned from pension funds and insurance companies through compulsory low-interest government and semi-government stock. Another \$276 million will be raised from banks and building societies, and \$184 million from the sale of defense bonds. The repatriation of profits and dividends to parent companies abroad also will be put under tighter limitations. The diversion of such large sums from the private sector is causing anxiety and even some alarm in that quarter, and the institutions are now being assured that the government will take no more than 50 percent of the expected increase in assets in the next year.

The strategy implicit in the budget with respect to the African, Indian and Coloured race groups is one of intensifying the existing policy of bantustan triage. Those layers of the non-European population which are already most advanced in skills and material standard of living are more or less favored *relative to the non-European population as a whole*, while those at the bottom of the scale are being ground down as never before. The budget provides \$141 million to build housing for the most-favored, Coloured group (2.4 of South Africa's 25 million population), and about half that much per capita for Asians (0.7 million persons), but an insignificant \$9 million for urban Africans (about 10 million) and nothing for Africans in the backward, rural homelands (about 8 million). For Africans, there is a 51 percent increase in spending on education to a still very small total of \$135 million, with a strong emphasis on funding at the university level, to benefit that tiny minority of the black population which is enabled to qualify for university training. Subsidies on staple foods have also been cut.

The triage policy of dumping unemployable sections of the African population in overpopulated homelands is in full gear. Shortly before Budget Day Prime Minister Vorster announced that the criminal penalties for infractions of the pass law (i.e., being in an urban area without proof of official permission) would be doubled. Meanwhile, the Transkei — the one homeland to accept a dubious "independence" as a result of government pressure — has just announced its tax policy which confirms that a successful homeland is a death camp.

Local taxes are to increase by 900 percent. The hut tax will increase from R1 to R10 per year; the tax on livestock to R10 each, R10 per donkey, R5 per horse or mule, and so on.

In gearing up the dumping of unemployed Africans in the homelands, the government has the support of such companies as Mobil Oil and Citibank, both Rockefeller firms, and liberal South African Rockefeller agent Jan Marais. William F. de la Beck, chairman of Mobil Oil South Africa Ltd. told *Business Week* Feb. 14, "The homelands policy is absolutely correct. ...It is a good development concept." *Business Week* described Beck as an outspoken opponent of racial discrimination. The same week that the Transkei announced tax increases of 900 percent, Jan Marais, outgoing president of the South Africa Foundation, suggested in his annual report in Cape Town that an impartial body be established to determine which urban blacks would be willing or could "justifiably be expected to assume citizenship of a homeland." South Africa's most powerful mining magnate and Wall Street ally Harry Oppenheimer publicly declared in May 1976 that he was suspending his opposition to the homelands policy.

South Africa's economic policy is explicitly premised on the notion that the country need only hold on tight until it, too, is swept into a recovery which is already 18 months old. No such global recovery exists.

#### *An Industrial Strategy*

A faction of South African industrialists has formulated an industrial strategy oriented toward Europe and black Africa. Last August Massey-Ferguson, South Africa's Deputy Chairman Dr. Leon Knoll, a member of the Prime Minister's Economic Advisory council, proposed a pro-industrial strategy in a talk on state radio. Because of rapid population growth, he said, the developing countries — of which South Africa and its homelands are a part — will have to increase their agricultural production of food and fibre faster than ever before, while increasing employment possibilities — also as fast as possible. He proposed rapid but planned mechanization of agriculture, which would free quantities of manpower to be absorbed in turn by the industrialization of those countries. Knoll's collaborators organized an international agricultural conference on the theme, "Production for a Growing Population" to promote the idea of gearing up capital-intensive agriculture to revive and extend industry, and ensure peace in southern Africa. South Africa's State President Nicholas Diederichs, who was Finance Minister until 1975, associated himself with the proposal when he addressed the conference at the University of Pretoria in mid-January. Minister of Agriculture Henrik Schoeman and the then Foreign Minister Dr. Hilgard Muller also proposed versions of the industrial strategy in their addresses to the 1,000 scientists gathered from many parts of the world. The conference was blacked out in the U.S. and British press and in the South African *Financial Mail*.

Also in August the Transvaal Chamber of Industries (TCI), representing the bulk of the country's industry,

formulated a program for improving the living standards of the urban African population in the form of a lengthy memorandum delivered to the Prime Minister. The TCI Memorandum demanded that urban Africans be recognized as permanent and no longer liable to deportation to the homelands; that a large-scale housing program be launched to tackle six and seven year waiting lists, that urgent attention be given to the electrification of homes, street lighting, paving of roads, and expansion of shopping, sports and childcare facilities; that there must be free, compulsory education to age 16 with free books and materials; and that Africans be admitted to skill levels in the occupational structure higher than semi-skilled work. Prime Minister Vorster reacted with anger at the TCI demanding a break with *apartheid*, and

told a meeting of businessmen to keep out of politics.

Indeed, the industrial strategy is strictly a minority position within the cabinet and the Nationalist Party leadership, since it carries the implication that *apartheid* would be destroyed. It is not accidental that its advocate, Foreign Minister Muller's retirement was announced by Vorster February 11.

While the actual political and economic success of such an industrial strategy depends on a more favorable correlation of forces internationally, the domestic renunciation of the policy signifies that South Africa is fast burning its bridges behind it in a march toward inevitable war.

— by David Cherry