ASPECTS OF THE DIRECTION OF SOUTH AFRICAN RACIAL INCOME INEQUALITY

By M. D. McGrath

Introduction:

During the 1970's the South African wage structure has received considerable attention, with most emphasis being given to the measurement of poverty amongst urban Blacks and the differential in wages between White and Black workers. Concern with some aspect of income distribution is not entirely unexpected, for the historical record shows a long tradition of writing and government policy on issues related to the incomes of various groups. Examples of such concern are found in the policy of the 1920's to eliminate the poverty of White families who had migrated to the towns; in the 1930's the White rural community received attention and attempts were made to eliminate its poverty and stabilize incomes, and the 1950's saw a period in which the government consolidated the power of White workers to protect their jobs and wages from racial competition. A resurgence of interest in income distribution is a recent phenomenon abroad. In South Africa aspects of income distribution policy have received continuous attention during the last fifty years.

Concern with Black incomes and deliberate sustained attempts to narrow racial wage differentials are, however, relatively recent departures. The aim of this short article is to give an insight into the effects of the economic forces at work in determining racial incomes, and to attempt to place recent pressures on the wage front into a broader perspective.

Aggregates:

Aggregate racial income statistics are stark and surprise even those who have an acute sense of South Africa's injustices. In 1970 Whites are estimated to have received approximately 72 per cent of the economy's total personal income, * although the White group accounted for less than twenty per cent of the total population, resulting in average White incomes per head being 14 times as great as average African incomes per head. Some adjustment of these numbers, by trying to allocate taxes and the benefits of government expenditures, can reduce the inequality slightly by reducing the White income share to 68 per cent but we are still left with a society with very wide racial income inequality. Whites dominate the higher income ranges, and we find few working Whites amongst the society's poor. By contrast a large number of urban Black households, and an even larger proportion of rural households, lived beiow incomes consistent with their basic needs for food, shelter and clothing.

The remittances earned through the migrant labour system, involving almost sixty per cent of the African male work force in the White areas is vital to the survival of the reserves, which have for a long time been net importers of food. For KwaZulu, for example, estimated remittances are equivalent to 66 per cent of the Gross Domestic Product and 225 per cent of the value of agricultural output. At present the migrant labour system acts to reallocate employment opportunities between families, and prevents widespread rural starvation.

The components of the vast White to African income differential are easy to separate if we consider the activities which contribute to the income of individuals and families. Income is the sum of earnings from employment (or if the person is in business, the profits from the business), and any returns which are received from wealth. Racial differences in incomes must stem from racially different rates of employment, a racially different distribution of occupations, and of wages within and between occupations, and also from differences in the amount of income received from wealth. In order to simplify our discussion we shall consider only the two main and most dissimilar groups - Africans and Whites.

Labour Markets:

Since the 1920's each successive government has protected White employment, not only by giving preference to Whites in public sector occupations, but also by reserving private sector jobs at the interface of racial competition thus preventing employers from experimenting with the racial mix of their labour force. Whites have a near monopoly of managerial, executive and administrative posts, they also

"Personal income includes income from work, wealth, and cash transfer payments, before the deduction of personal taxation. Home consumed agricultural produce is included, as well as payments in kind and fringe benefits, but undistributed corporate profits are not included.

dominate the professional, semi-professional and technical occupations, and artisan jobs are a non-African preserve. Whites have preference in the job queue, with the result that unemployment rates differ markedly between racial groups. There were less than 5000 Whites registered as unemployed during any month of 1975. African unemployment is difficult to estimate as statistics are not collected, but a recent study places the residual labour figure at between 20 per cent and 30 per cent of those of working age.

Most African workers who find jobs are "crowded" into low wage occupations, even in those sectors of the economy usually associated with relatively higher wages. Recruitment of unskilled labour from other countries by the mines, and White farmers, adds to the forces producing low wages.

In manufacturing average wages are at present about 35 per cent higher than those paid on the mines, but even if the African work force could compete freely for industrial jobs, many such jobs would not be available. Managerial, clerical, supervisory and skilled jobs all require some degree of literacy and arithmetical skills which many African workers do not possess. In 1970 over 90 per cent of male urban economically active Africans had completed less than a full primary education, whereas 80 per cent of Whites had attained more than that level. As in mining, an occupational colour bar exists against those Africans who have the potential for performing skilled or clerical work. Job reservation is often seen as the most important element of this colour bar, but managmenfs own prejudices especially at lower levels, occasional acts of government coercion, the costs of setting up separate facilities for Black staff, a fear of discontent arising among White workers, and a reluctance to invest in the training of African workers, are all important factors which deter African occupational advancement.

This segmentation of the labour force, probably at its height in the early 1960's, led Knight to propose a theory of wages in South Africa formulated in terms of two non-competing groups of workers, namely skilled labour (entirely White) and unskilled labour (entirely Black).

The Black wage was determined by the opportunities available in reserve agriculture, and unskilled labour was assumed to be available in amounts greater than could be employed at this near subsistence wage. Skilled labour, on the other hand is in extremely short supply and is fully employed. Within the assumptions of this model the market mechanism acts as a malevolent Invisible Hand to produce increasing racial wage inequalities, since White labour is able to benefit not only from its own skills, but also from its acute scarcity. The benefits of growth in the economy accrue in the form of higher wages to Whites, and higher levels of employment to Africans.

Since the 1960's some changes in employment patterns have taken place although Knight's model still explains the determination of incomes for the vast majority of Africans. Acute shortages of skilled labour prior to the current recession have forced employers to use Africans in semi-skilled, skilled and supervisory jobs, but the pace of this occupational advancement has been held back by opposition from White Trade Unions. In operations where existing jobs can be fragmented, progress has been faster, but the price of acceptance of African artisan aides has always been a substantial increment in the wages of the White artisan. In categories where dilution of jobs has not been possible and where shortages of union members have forced concessions, the response of both conservative and more progressive unions has been to demand "the rate for the job"' to protect the incomes of White union members.

More stringent selection criteria will be applied by firms investing larger sums in the training of Africans, and preference will most probably be given to the group which is least costly to train and which is most likely to remain with the firm — workers with permanent urban rights. These urban insiders are also in a better position to get the more advanced jobs as they probably have better access to information about jobs and a greater freedom to search for them.

If this view is right, income differences, and markedly different rates of unemployment, will appear between the urban insiders and the rural outsiders.

In mining too changes have taken place as recent attempts by the mines to recruit a larger proportion of their labour domestically has forced increases in wages. Between 1969 and 1975 African miners real wages rose twofold although before that they had hardly changed in real terms since 1911. At the same time the search for less labour intensive methods of production has been intensified. This search for new technology illustrates a possible conflict between the attainment of higher wages and high growth rates of employment. Those Africans who hold jobs in the future may experience quite large increases in income as mechanised technology is introduced. But for many potential work seekers employment may become more difficult to obtain, an influence which can increase the incomes of some Africans, and worsen the lot of others.

In the service sector African occupations vary widely, ranging from professionals to domestic workers. The wages of unskilled service workers are subject to influences similar to workers in agriculture and mining. Employment opportunities for African professionals have until recently been confined almost exclusively to the public sector, which is the major employer of African teachers, doctors and nurses. Discriminatory residential legislation, government policy and White consumer prejudice have prevented African professionals from serving the high income White market. Instead they have had to resort to jobs in government hospitals and schools at incomes below those earned by White professionals. The expansion of government expenditure on African services has increased the demand for professionally qualified Africans, as has the creation of the institutions of Homeland government and some competition from businesses needing Africans for white-collar jobs. These market pressures, and a desire by government to encourage the formation of an African elite, have led to a marked reduction in public sector racial wage differentials.

Education and Occupational Advancement:

Lack of education was singled out as a major factor inhibiting African occupational mobility, and the immediate response is to urge an increase in the provision of education. Even so difficulties lie in the way, for employer prejudice and White employee fears have still to be overcome. A study by Perry of a sample of urban African men and women who left school between 1966 and 1971 after reaching at least Junior Certificate pinpoints the problem. Some 25 per cent were unemployed and were looking for work at the time of the survey. Many had aspirations which were high in relation to opportunities. Of the few men with a full secondary education, 43 per cent were teachers or clerks, and no less than 27 per cent were manual workers; of those who had left after writing Junior Certificate, 58 per cent were manual workers. When asked about the main difficulties in finding employment, the majority mentioned formal and informal job reservation and employer preferences for other race groups; a number mentioned the problems caused by "influx" control and the low quality of "Bantu education." Employers were seen to give preference in white collar jobs to other races because of greater fluency in official languages, greater confidence, and greater presentability. In these perceptions the respondents showed insight for in access to white collar jobs Africans take last place in the queue behind other races.

While there is a marked moral obligation to provide the African community with as much education as the other groups receive, an increase in the supply of education alone is only a partial solution to the employment problem. Unless the demand for educated African manpower increases at the same rate as the supply, mass unemployment even of educated Africans may emerge, for employers use education to screen prospective applicants for jobs, and higher levels of education can be demanded for entry to the job opportunities available if there is a glut of applicants.

Expansion of education in other African countries, and even in America has had disappointing results for the distribution of income, and unless the racial ordering of the job queue is changed drastically, or unless sufficient new jobs are created for newly educated Africans, a similar failure may result in South Africa.

Wealth and Entrepreneurship:

Almost one quarter of the income inequality which exists between the average White and the average African seems to be due to the highter incomes from wealth and profit which are earned by Whites, although these are concentrated even within the White community. These differences result partly from low African incomes which have inhibited savings, in part from the laws which impede African entrepreneurship and the difficulties which African businesses have had in raising risk capital, and in part from the unequal racial division of the land area of South Africa.

In order that the income of Africans from wealth rises to the same level as Whites the African community will have to generate a higher rate of savings than the White community and earn at least as high a rate of return on these savings. In the medium term this seems most unlikely for income increases are not likely to lead to savings until relatively high incomes are obtained, a large class of wealthy African entrepreneurs will not emerge rapidly, and rates of return on small and on large capital sums often differ widely in favour of the wealthy. For the present the solution to the income distribution problem clearly lies in the areas of wages and employment, unless government is prepared actively to redistribute wealth.

Future Perspectives:

We have argued that there is a dichotomy between pressures at work in the economy, with some improving and with others worsening the racial income distribution. Average African incomes will be influenced markedly by the nature of the growth path which the economy is following, and so will be influenced by the growth rate of the economy, the growth rate of the African population, the growth rate of production in the Reserves and the capital intensity of new investment. The African population's growth rate is high and may still be rising and at present the economy is growing very slowly, if at all. Both these forces will depress wage growth and increase unemployment. Any tendency towards increased capital intensity in commercial agriculture, mining and manufacturing will add to long run pressures on the unemployed. All these forces will have a negative influence on African incomes, although some positive forces are at work. One is the desire by mining and agriculture to become less dependent on foreign migrants, another is the increase in the flow of government expenditure on the Reserves as a result of the Homeland policy. Between 1969/70 and 1973/4 expenditure on services and infrastructure in the Reserves increased at the rapid real average rate of 9 per cent per annum.

The rapid economic growth of the 1960's resulted in a marked improvement in the incomes and employment opportunities of the Coloured and Asian communities. An African elite is also emerging as a result of the shortage of skills which resulted from high growth rates. The most optimistic picture for African incomes for the next decade is one of increasing real incomes for some, and this may narrow the per capita racial differential at the cost of much greater inequality within the African community.

A recession of the kind which the economy is at present experiencing worsens the long run problem by adding to the rate at which the economy will have to grow to absorb its unemployed population. Some economic situations work to produce virtuous circles whereas others can produce vicious circles. High growth rates require high investment rates in order to maintain the high growth, but in a climate of bouyant growth there is less difficulty in generating the necessary levels of investment. Poverty circles are hard to break as foreign investment in a poor stagnant society is unattractive and domestic surpluses are difficult to generate. The bouyant era of the sixties may have produced a virtuous circle in South Africa which was working towards a solution of some aspects of the racial income problem. Has the world recession of the mid-seventies, coupled with waning foreign and local confidence in the political stability of Southern Africa acted to produce a vicious circle of poverty and unemployment from which there will be no foreseeable escape for an increasing portion of the African population?