

# **Business Associations, the State and Enterprise in South Africa: A Review of the Apartheid Years, 1948-1980**

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## **1. Introduction**

This short paper provides an outline and a justification for a research project that will assess the available evidence on how business associations, primarily representing manufacturing firms, interacted with the Apartheid state. The aim of the research is to assess the extent to which these associations promoted an environment conducive to enterprise in South Africa. Business associations can broadly promote enterprise in two ways. They can do so directly, by bringing businesses together, pooling resources, sharing information and providing encouragement and loans to start ups. They can also promote enterprise indirectly by putting pressure on the state to provide a conducive regulatory environment. They can do this by agitating for lower tax rates, stronger property rights, a balanced approach towards labour rights, state assistance for start-ups, and by pushing state officials into acquiring both the necessary capabilities and the required readiness to enforce relevant rules. Such positive interactions between business associations and the state are not, however, inevitable. Instead, it is just as likely that business associations will try to collude with the state, securing state resources exclusively for their members, using state capacity to protect their members from competition, and by going along with state policies that are discriminatory and unfair.

This project will primarily be an empirical exercise. My aim is to assess the nature of business association behaviour by evaluating their actual practices. Once I have completed that exercise I will seek to draw out which ideas, leadership qualities and structural circumstances were most likely to produce positive as opposed to negative practices. From this evaluation I hope to draw out the lessons for creating the kind of environment that will lead to enterprise promoting business association practices in present-day South Africa.

I will focus on the associations that represented manufacturing firms and will try to look at a mix of both national and regional associations. The business associations on which I will be focussing include: The South African Federated Chamber of Industries, ASSOCOM, AHI, SEIFSA, the Johannesburg Chamber of Commerce and Industry, the African Chamber of Commerce. I will be examining the evidence of their interaction with the state during the core Apartheid years, 1948 to 1980.

## **2. Existing Contribution to the Literature**

The existing literature on this topic is not very extensive. In essence, there appear to be two authors who have focussed on the role of business associations during the apartheid years. They are Merle Lipton and Nicoli Nattrass. In her book *Capitalism and Apartheid*, Merle Lipton set out to show how the interests of South African businesses led them to oppose

Apartheid and to put pressure on the state to create a more conducive environment for business. In chapter six of the book she focuses on the interests of manufacturing firms. During the course of the chapter she shows how the South African Federated Chamber of Industries, ASSOCOM, AHI and SEIFSA all took positions in opposition to Apartheid, especially on issues relating to the labour market, collective bargaining and trade unions, competition from black businessmen and decentralisation. She also shows that, although many associations were reluctant to play a political role, they increasingly, especially by the 1980s, became critical of the Apartheid system as a whole and looked for ways to reform it. Of the associations on which Lipton focuses, the Federated Chamber of Industries was founded in 1917. By 1970 it had 5000 member firms, which constituted 70 per cent of South African manufacturing firms. The Associated Chambers of Commerce, representing many retailers but also manufacturers, consisted of 17,000 businesses. The Steel and Engineering Industries Federation (SEIFSA) originated in the 1940s and had 1,600 affiliated firms in the 1970s. The Afrikaanse Handelsinstituut (AHI) was founded in 1942 and represented 7,500 Afrikaans businessmen in all sectors outside of agriculture.

Lipton argues that manufacturing and commercial businesses did not need, and therefore, often through the associations that represented them, frequently opposed most Apartheid policies. However, although they rejected racial separation and pressed instead for the inclusion of blacks into South African society, they were cautious and paternalist in their social and political policies. She also shows that business associations and the state interacted differently on different issues, and that they changed their positions over time. On the issue of competing with black businesses there were instances of direct collusion between businesses and the state, and on the issue of decentralisation it appears that the state largely avoided consultation with business, leading to a lot of hostility between the associations and the state. On the issue of the labour market and unions, Lipton shows, the position of the associations shifted over time as the costs of bureaucratic regulation and bans on black unions became more apparent to businesses.

I hope to explore all these issues in more depth by looking at evidence that was not available to Lipton. I am also somewhat critical of Lipton's assumption that the positions adopted by business associations can mostly be explained by the objective economic interests of South African manufacturing firms.

Lipton claims that these business associations had a major impact on changing, and possibly ending, Apartheid. She argues that the associations 'did not wish to overthrow the whole system ... but the limited changes they inaugurated led them to seek further changes – erosion of the job bar leading to erosion of the education and training bars and to pressure for stabilisation, and hence to a the demand for a secure and permanent African status in the white areas; this in turn raised the question of African citizenship and political rights.'

Nicoli Natrass has focussed her work on more recent relationships between business associations and the state and has delved into the Apartheid period mainly as a way to provide a context for the more recent developments. She has also drawn quite heavily on the work of Lipton. She has, however, provided a number of important insights that I hope to

take forward. For example, she quotes Streek and Schmitter's observation that 'organised group interests are not given but emerge as a result of a multifaceted interaction between social and organisational structure'. This is important, firstly, because, as Natrass points out, collective action is not an automatic process. It is plagued by free rider problems which creates organisational challenges and conflicts of interest between larger and smaller businesses. This means, amongst other things, that the structure and coherence of business organisation has to be explained, to some extent, by non-economic factors like culture, altruism and methods of exercising power over groups. As Natrass points out, it was imperative that business associations constructed common visions of the world. Once constructed, these visions had a powerful effect on how they engaged with the state.

Secondly, this insight points to the ways in which interests were formulated not just in the pursuit of business profits but also in actual interactions between business and the state. Natrass shows how the AHI initially represented business owners who were strongly supportive of Apartheid and the state. However, possibly as a result of regular interactions with the state, they came to realise a serious limitation that most states face: 'they do not always have the necessary knowledge of the practical implications of their policies'. This led AHI to see its role as providing a more practical and ultimately critical perspective to the state, which ultimately led the AHI to side with Assocom in demanding 'stabilisation' of the townships and raising the living standards of urban Africans.

Lastly, Natrass argues that business associations face difficulties because they tend to represent the collective interests of entities that are essentially competing against one another. She quotes Traxler to the effect that 'the more intense competition (between businesses) is, the higher the pay-offs realised through non-cooperative behaviour'. This raises the possibility, that effective business organisations are a product of, or have been somehow complicit in creating, uncompetitive business environments. Natrass suggests that the difficulties of maintaining a coherent position within associations increased as South African business ownership became increasingly centralised. As a result individual large business owners began to interact with the state as individuals rather than as representatives of broader associations. This may have led to the increasing marginalisation of small business owners.

While building on these earlier works, my project will be breaking new ground in two basic ways. It will firstly be examining, in as much depth as possible, the correspondence between business associations and the state housed in the national archives. As far as I know this evidence has not been sourced by anyone else. Previous studies on this topic, primarily the work of Merle Lipton and Nicoli Natrass, have relied on public statements and annual reports issued by the associations and by government. By undertaking an in depth investigation of the correspondence and minutes of meetings between the parties I hope to obtain a more finely grained understanding of the ways in which business associations and the Apartheid state interacted. I will supplement my investigation of this correspondence with an assessment of annual reports, including those produced by government departments, as well as possibly looking into the archives of the associations and conducting some interviews.

Secondly, rather than focusing on the political outcomes generated by these interactions (i.e. whether the business associations supported or opposed Apartheid) I will focus on the economic outcomes – i.e. how these interactions promoted and/or hindered enterprise development. This is not an absolute distinction, as the Apartheid system itself clearly hindered enterprise development amongst black South Africans and, as Merle Lipton argues, created a very distorted labour market, which imposed costs on capital and technology intensive manufacturing and service enterprises. It does, however, allow me to consider the ways in which Apartheid impacted on economic growth in general. Without justifying Apartheid, I think it is important to understand in detail how Apartheid both promoted and held back economic development. That will allow us to understand the economic legacy of Apartheid, which, in turn, will allow us to deal with and change that legacy more effectively.

My hypothesis is that particular kinds of interactions between business associations and the state will have positive implications for growth and enterprise development, while other kinds of interactions will have negative implications. Essentially, it seems evident that a positive, two way engagement will lead to knowledge sharing and accommodating the interests of various economic sectors without riding rough shod over other, opposing interests. A negative relationship leads to uninformed state authoritarianism or excessive rent seeking, protectionism and short-termism. Real relationships are unlikely to be one or the other of these ideal types and will instead be a messy combination of the two. My aim will be to plot the ways in which relationships moved towards or away from the ideal that best promotes enterprise development.

### **3. The Development Approach Underpinning the Project**

The approach that informs my research goals has been influenced by a number of contributions to the economics and economic history literature.

Acemoglu and Robinson's perspective, despite being derivative and problematic in its vagueness, is nevertheless worth engaging with. First, the concept of inclusive institutions - which should be seen as the systems and rules that make it both possible and attractive for individuals to establish and expand business ventures – is a broad way to think about the necessary conditions for enterprise development. An ideal social system would be one where support structures and economic opportunities are broadly available and where discrimination and barriers to entry are relatively low.

Acemoglu and Robinson's core argument, of course, is that 'all economic institutions are created by society'. In this respect, they draw on pluralist perspectives, but also emphasise the role of a strong, centralised state. In other words, they see the importance of a balance of power between interest groups and the absence of dominance of one group over another, but, in contrast to libertarians, understand that this will only lead to a well-structured economic environment if these interests are coordinated and integrated by an effective state.

What is pluralism, and how do we fit the role of business organisations into it? Classical pluralism largely underpins the view of Acemoglu and Robinson. It is the view that government takes ultimate responsibility for decision making, but these decisions are

influenced by a multitude of non-governmental groups who use their resources to exert influence. The central question is how power and influence is distributed in a political process. Ideally, interest groups will try to maximize their interests in a situation where lines of conflict are multiple and shifting. Power in this situation becomes a continuous bargaining process between competing groups. There may be inequalities but they tend to be distributed and evened out by the various forms and distributions of resources throughout a population.

To achieve this outcome politically, pluralists argue, it is necessary to have a situation of open competition for electoral support within a significant part of the adult population. Such an electoral system will ensure competition of group interests and relative equality. Pluralists also stress civil rights, such as freedom of expression and organization, and an electoral system with at least two parties.

The seminal work in this tradition is Robert Dahl's 'Who Governs?', which purports to show that pluralism prevailed in 1960s America. Dahl was mostly concerned to outline the working of a pluralist political system, but he did also consider the interactions between politics and the economy. He saw a positive correlation between democracy and private enterprise as he saw a market-based economy as conducive and supportive of polyarchy. He argued that: capitalism and markets were best at promoting economic growth, which tempers political competition and facilitates compromise between different interests in society; economic growth and prosperity tend to foster a large middle class that is supportive of values and social conditions associated with democracy; the market, besides being the only feasible method of coordination and allocation in a complex society, avoids the need for large and powerful government bureaucracies that might override or infringe on democratic procedures; and market capitalism is a decentralized economic order and thus disperses power.

From Dahl's perspective, therefore, the line of causality tends to run in the opposite direction to the one proposed by Acemoglu and Robinson. Economic growth and a private enterprise based economic system are required to underpin a pluralist political system. While there must be much validity to this insight, it is also based on a problematic assumption. As Jacinda Swanson points out, while Dahl tended to be ambiguous on this point, he ultimately had a sense that markets could operate in an autonomous realm, according to laws of motion that were unaffected by social and political processes. While Acemoglu and Robinson may overstate their case, they have, I think, effectively underlined the argument that economic performance cannot be understood outside the rules and rights that structure their performance. Society and the state always have some influence on how markets and the economy work.

Thus, if we combine institutional economics with pluralist political science we are left with the confusing possibility that private enterprise promotes political pluralism, while political pluralism encourages the expansion of private enterprise. This is almost certainly how the real world works, but it leaves us with the problem of how such virtuous circular relationships are initiated.

I have no desire to claim that business associations are the only or even the most important factor in promoting economic development, but I do believe they play a significant role. Two sets of perspectives inform my argument. The first comes from the comparative economic history that sets out to explain why Europe industrialised before any other region of the world. In an old but I believe still relevant contribution, John Hall identifies the ways in which states and societies relate to one another as the critical element explaining the success of western Europe in comparison to other regions. Relationships that are not conducive to the kind of broad, sustained growth that underpinned the breakthrough to industrialisation, he argues, include centralised states that control large regions without having any organic links to the people they rule. These types of large empires he labels ‘capstone states’. Despite their apparent power and wealth, they are actually quite weak. They lack legitimacy and are unable to provide the kind of broad stability and support that is most conducive to enterprise development. Similarly unhelpful are arbitrary, weak and predatory states. In contrast to these dominant patterns, Hall argues, a process emerged in Europe in which states became simultaneously centralised, accountable to an increasingly broad section of society and supportive of their society’s entrepreneurial ventures and welfare. According to the Hall defining features of the European state were a limit to arbitrariness combined with considerable and ever increasing ‘infrastructural penetration’. European societies developed active civil societies and monarchs found themselves in a position where the only way of gaining money was to cooperate with this element of society. European states began to provide rights and support. They became good at managing disasters, controlling diseases and integrating markets. As a result many states became increasingly powerful without losing their organic nature and accountability to a significant proportion of society.

It is this co-evolution, in which states become increasingly dependent on the people they govern, and vice versa, that, Hall argues, was unique to parts of Europe during the period in the run-up to the industrial revolution and explains Europe’s success.

There was nothing automatic or inevitable about the process. Under slightly different circumstances the direction could have been reversed or states could have used their power to crush civil society. Its success depended on a range of internal initiatives and processes, as well as, crucially, external pressures – especially the threat of invasion by more powerful neighbours.

One of the internal initiatives that has to be seen as important to the success of this conducive scenario is the efforts of civil society to demand accountability and support from the state. This is where, in a rather roundabout way, business associations come in. In the run up to industrialisation they would have taken the form of guilds or less formal elite groupings.

The fact that the kinds of business associations that operated in the Apartheid era have played an important role in bringing states and societies together to achieve industrialisation emerges from the literature on the twentieth century industrialisation of south-east Asia. An enduring and persuasive concept that emerged from that literature is Peter Evans’s ‘embedded autonomy’. This referred to the complex way in which states that successfully promoted industrialisation, especially in South Korea and Taiwan, were able to insulate themselves

from the conservative demands of established elites while also enjoying broad legitimacy and involving actual entrepreneurs in formulating economic reforms and plans. This has led analysts of these processes to recognise the important role of business associations. As Doner and Hawes have put it: “the contribution of centralised private sectors to economic adjustments has long been recognised and, as Evans notes, developmental states require appropriate private interlocutors. But with rare exceptions, little attention has been devoted to business associations in developing countries in general and NICs in particular”.

They show that in the case of Korea and Taiwan, organised business interacted with state officials through networks. Public-private sector linkages played a critical role in terms of their information and implementation functions. Concrete networks of external ties allowed the state to assess, monitor and shape private responses to policy initiatives. They provided the state with information and made it more likely that policies would be implemented. At the same time these were arenas in which state officials could negotiate with and learn from entrepreneurs. Rowthorn has argued that this learning has allowed developmental states to avoid the dilemma of the limits that states face in accessing on the ground information and in sticking with a central plan even when it is not working. Dani Rodrick, essentially, sees a cooperative relationship between the state and business associations as underpinning workable industrial policies.

What matters for the ideal outcome, is the extent to which these are two-way discussions, in which neither party becomes too dominant. Furthermore, from a pluralist perspective, it matters that a broad cross section of society receives equal access and due consideration. Big and small business interests, all economic sectors, employers and unions must all have a voice; and the interests of those who are not yet established in business or not yet employed must also somehow be factored in.

The argument, then, is that under the right circumstances, business association can play a vital role in promoting enterprise. They can strengthen the state, make the state more effective, direct the state to provide appropriate support and the stability, property rights and access to markets that are necessary to encourage a broad process of enterprise development. The likelihood of this taking place will depend on a complex and mostly unlikely combination of internal and external circumstances. No such ideal could ever exist within a highly discriminatory system like Apartheid. But were there times when things worked better than they did at other times? Where there movement away from or towards the ideal, and what do they tell us about the economic legacy of Apartheid?

### **South African Studies on earlier periods**

Some work has been undertaken on the role of business associations during earlier periods, which provide a context for the Apartheid period. Significant analysis has been undertaken on the pre and post South African War period, with various authors seeking to prove or deny that business contributed to the declaration of war in various ways. A particularly useful contribution, based on an exhaustive examination of all the evidence, can be found in the two volume examination of pre and post war Johannesburg by A.A. Mawby. The work, which

does not have a primarily economic focus, provides a number of important insights. It shows, for example, that the Johannesburg Chamber of Commerce and Industry was up and running as early as 1890, and making representation to the Kruger government on behalf of its members. This type of organisation and political involvement at such an early stage of urbanisation requires, I think, more explanation.

Mawby also reveals the extraordinary level of involvement in politics after the war by the Chamber of Mines, and by individuals such as Percy Fitzpatrick. His work shows that this involvement had crucial consequences for the nature of the Milner state. Despite a widespread notion amongst mining interests that the Milner government would serve their needs, one of the state's first actions was to impose a mining tax to pay off war debts, which was higher than anything proposed by the Kruger state. It was only after intensive negotiations that a compromise solution was struck.

In addition, despite the general view among subsequent analysts that the Milner state established a highly professional and efficient bureaucracy, initially there were intense complaints about the inefficiency of various parts of the state. The problem, at least in the eyes of many Johannesburgers, was that Milner appointed inexperienced people who had no feel for local conditions. It was only as a result of intense engagement and reforms, a process in which various business associations and individuals were actively involved, that the bureaucracy became increasingly effective. Many of the positive elements of the Milner administration may, therefore, have been the product of consultative networks within which business associations, amongst other interest groups, were able to negotiate with and influence the state.

There has also been some work undertaken on the ways in which manufacturing associations affected the adoption of tariffs in the 1920s, to which I have contributed. Most authors have argued that these associations were able to capture the state in 1924/25 and promote the protective tariffs they required to develop, contrary - some people argued - to the interests represented by the chamber of mines. By examining the details of the ways in which these associations actually interacted with government in the 1910s and 1920s, I was able to show that the policy the manufacturers worked with and helped to shape before 1924, was, in many ways, very positive. Within the restrictions of the racial exclusiveness dominant at the time, it was based on a relatively broad and inclusive nationalism, which underpinned the co-operation and support essential for promoting enterprise. The state saw its role within this framework as providing as much assistance to manufacturers as possible, while keeping the long-term needs of 'the nation' firmly in the forefront.

In contrast to the idea that manufacturers increased their influence after the 1924 regime change, I also showed that the opposite occurred. Manufacturer associations were consulted far less and had a far weaker consultative relationship with the Hertzog government than they had had with the Smuts regime. I speculated that these developments had negative long-run consequences for enterprise development in South Africa.

#### **4. Themes to consider**

- a) How did the relations between business associations and the state change after the election of the National Party in 1948? How was the Department of Commerce and Industries affected by this change, i.e. personnel, guiding philosophy. How did associations respond; is there a change in the nature of correspondence and discussions.
- b) Labour laws – the limits imposed by Apartheid – was there any consultation around the urban labour preference policy of the 1950s; and then shift to migrant labour preferences in the 1960s
- c) The decentralisation policy – There appears to have been a lack of consultation on this issue – led to badly designed policy and business opposition. Were there cases of cooperation? Interesting question: could this have been a more successful policy if a more consultative approach had been adopted?
- d) Competition from Indian and black businesses – What was the approach of the big associations; what was the approach of the Johannesburg Chamber of Commerce and Industry; Were there changes in approaches over time; what impact did the chambers have on policy.
- e) Expanding opportunities for black businesses: What role did the African Chamber of Commerce play? Were there shifts in approach and why? Did NAFCOOC develop an unhealthy relationship with Apartheid in terms of seeking protection for members?
- f) The Wiehan and Rieckert Commissions and the recognition of trade unions. Insert from Lipton. What light can archive correspondence shed on this.
- g) Apartheid and protectionism. What was the role of business in the 1958 Viljoen Commission. Not much has been said about this in the literature.
- h) Industrial policy – did the state learn anything from business. Focus on car industry and decentralisation?

#### Additional Literature

1. Franz Traxler, Business associations and labour unions in comparison: theoretical perspectives and empirical findings on social class, collective action and associational organisability.
2. Deborah Bräutigam, Lise Rakner and Scott Taylor, Business Associations and Growth Coalitions in Sub-Saharan Africa
3. Nicoli Nattrass, the truth and reconciliation commission on business and apartheid: a critical evaluation
4. Nicoli Nattras, From Fragmentation to fragile Unity: Organisational Fault Lines in South African Business
5. Mancur Olson, *The Logic of Collective Action*
6. J. Widmuller & A. Gladstone, Employers Associations and Industrial Relations: A Comparative Study

7. Roger Southall, African Capitalism in Contemporary South Africa
8. A.A. Mawby, Capital, Government and Politics In The Transvaal, 1900-1907: A Revision And A Reversion', *The Historical Journal*, XVII, 2 (1974), pp. 387-415.
9. Wolfgang Streeck and Phillippe C. Schmitter (eds): *Private Interest Government: Beyond Market and State*. Bristol: Sage, 1985.
10. Alan Cawson (ed): *Organized Interests and the State: Studies in Meso-Corporatism*. Bristol: Sage,1985.
11. Jacinda Swanson, The Economy and Its Relation to Politics: Robert Dahl, Neoclassical Economics, and Democracy, 2007 *Northeastern Political Science Association* 0032-3497/07 \$30.00 [www.palgrave-journals.com/polity](http://www.palgrave-journals.com/polity)