U.S. Corporations in South

The Republic of South Africa has always been regarded by foreign investors as a gold mine, one of those rare and refreshing places where profits are great and problems small. Capital is not threatened by political instability or nationalization. Labor is cheap, the market booming, the currency hard and convertible.

That was **Fortune** magazine, the voice of American business, summarizing the South African investment climate in 1970. The picture is not as rosy for foreign investors these days. The profit rate has fallen; the economy is in a recession; and intolerable conditions for the black majority threaten a violent upheaval in the near future. Yet **Fortune**'s observation is still useful. It states the bottom line which rules the location of business investments: Corporations seek high profits and a stable investment climate. They do not make decisions as conscious catalysts of progressive social change.

Over the past fifteen years, numerous groups and individuals — from South African Nobel Prize winner Chief Albert J. Luthuli to the United Nations General Assembly — have called for the withdrawal of foreign investment from South Africa because this investment constitutes economic, political, and military support for apartheid. Since this issue is the heart of the South Africa controversy at Stanford and around the country, we must examine the "corporations as a progressive force" argument more closely.

CORPORATIONS DEFEND INVESTMENT

There are actually two related variants of the prevailing corporate view. The first holds that corporate investments will gradually change the nature of South African society. Business defenders argue that economic development and industrialization will inevitably alter economic conditions and the social structure, elevating the position of blacks within apartheid society.

This scenario, based largely on American economist Walt Rostow's **The Stages of Economic Growth**, claims that the historical precedents of the US, Western Europe, and Japan prove that brutality and inequality are only temporary features of a developing economy. True, a small percentage (the whites) control South African economic and political power now, but as the productive system expands and becomes more sophisticated, whites will be forced to employ blacks in skilled labor and management jobs which are now closed to them by apartheid restrictions. The benefits of development will gradually "trickle down" to the majority. Opportunity will increase, living standards will rise, and gradually blacks will assume the political rights they are now denied. In sum, the proponents of corporate investment claim that apartheid will wither away under the impact of capitalist economic development.

The second line of corporate defense, the policy of reform, is more modest. In response to the increasing public challenge to their role in South Africa, corporate representatives claim that their firms can better the conditions for blacks by improving wage scales, training and promotion opportunities, and employment conditions. Twelve major US corporations active in South Africa recently endorsed "Six Principles" to improve operating practices. Their principles call for equal pay for equal work, better training programs for blacks, more management positions for blacks and other non-whites, and an end to segregated facilities within the workplace.

NO TRICKLE DOWN

Those who advocate corporate withdrawal dispute the claim that investment will undermine the apartheid system. A decade ago, nearly every orthodox development economist embraced development theories founded on the "trickle down" view. Few argue this line any more. A recent study by World Bank economist Irma Adelman found:

> The primary impact of economic development is on the average to decrease both the absolute and relative incomes of the poor. Not only is there no automatic trickle down of the benefits of development; on the contrary the development process leads typically to a trickle up in favor of the middle classes and the rich.

Indeed, this is precisely what has happened in South Africa. Corporate investments have increased dramatically, but they have not been accompanied by a corresponding improvement in conditions for the majority of non-whites.

> Africans in South Africa are not only worse off now, by comparison with whites, than they were ten years ago: they are worse off by comparison with their own standard ten years ago. And this development has occurred in spite of boom conditions in the economy and a growth rate at constant prices of roughly 6% per annum.

In 1960, US corporations had $284 million invested in South Africa. By 1970, investment had increased to $864 million, and by 1975 it had skyrocketed to $1.56 billion. The benefits of these investments, however, have accrued largely to the white majority. During the period 1960-69, the percentage of national income received by Africans fell from 26% to 18.8%. In 1960 African income per person represented 11.2% of the white income per person. By 1969, it had dropped to 8%.

This pattern has persisted into the 1970's. The gap between black and white wages in 1971 was $3,344; in 1974 it was $4,326, an increase of 29.3%. While wages did increase for blacks in some sectors, a Johannesburg marketing firm noted that these increases have been "largely neutralized by the negative effects of inflation."

In 1975, the Poverty Datum Line (PDL), the absolute minimum income on which a family can survive, was estimated by South African officials to be $149 a month for a black family in Soweto, the economically central black township near Johannesburg. The average black industrial worker earned $125 a month, considerably less than survival wages. Eighty per cent of all blacks live under the PDL. Another income standard, the Basic Minimal Level, is "considered by many sociologists and doctors in South Africa to be the basic income necessary to begin to alleviate poverty and deficient nutrition among blacks. Ninety-five per cent of all blacks in South Africa receive income below this level."

Corporate investment, following South Africa's development policies, has generally been **capital intensive** (relying on machines, not people). Consequently, employment has not risen as fast as investment. Between 1962 and 1972, for example, Caltex (jointly owned by Standard Oil of California and Texaco) reduced its South African employment from 2,400 to 1,830, despite major expansion. Moreover, the number of black employees fell from 776 to 394 over the same period.

By integrating advanced foreign technology into all sectors of the economy, South Africa is actually reducing the possibility of black job advancement. The widespread use of computers (from IBM especially), for instance, means that South Africa needs fewer skilled technical and managerial workers than it might otherwise. South Africa is consciously replicating a pattern found in high technology industries elsewhere, described in **Science** magazine recently:

> The upcoming labor force may be structured into large numbers of relatively unskilled workers at one end, and highly trained managers and engineers at the other.

Because technology does not totally eliminate the need for more skilled personnel, the South African government vigorously promotes immigration of skilled white workers and professionals from Europe and North America.

Neither technology nor immigration can eliminate the need to hire some non-white South Africans to skilled positions. To maintain the system of racial discrimination, however, black "skilled" jobs are often reclassified as "semi-skilled" at considerably lower pay. More important perhaps, is the ploy of "job fragmentation," in which white skilled jobs are broken down into several jobs for blacks, with the total wage paid to the black workers less than the wage of the single white they replace. Thus, corporate claims that more blacks hold jobs formerly filled by whites must be taken with a grain of salt. Corporations may claim equal pay for equal work, but blacks are not given equal work opportunities.

The real story of job availability is told in the unemployment statistics. White unemployment is a fraction of one per cent. Approximately two million blacks, or 23% of the labor force, are out of work.

Finally, there is a fundamental fallacy that economic development resulting from corporate investments will undermine apartheid. White South African leaders encourage foreign investment because they believe — based on solid experience — it bolsters their way of life. South Africa advertises abroad to attract foreign investors, and it provides research and marketing services for potential investors. They promise sizable tax allowances, direct financial assistance, protection against competitive investment and imports, guarantees against nationalization, generous repatriation of income, and of course, cheap skilled labor. Recent investment restrictions and higher taxes should be seen merely as