



William Hutt and the Economics of Apartheid

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Abstract. The work of William Hutt is well known in the fields of labor economics, monetary economics and political economy. A hundred years after his birth it is appropriate to take note of a less well known work of his, *The Economics of the Color Bar*. This book, first published in 1964, is an in-depth examination of the origins and implications of apartheid in South Africa his adopted country of residence for 38 years of his life. It can be read today not only as an authoritative and illuminating political and social history of South Africa from its first colonization until the time of writing, but also as a window into the origins of South Africa's current dilemmas.

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1. Introduction

William Hutt is justly famous among labor economists for his early work on unemployment and trade unions (Hutt 1975 [1930], 1977 [1939]). He is less well known for a later work of applied political economy that uses some of the most important insights from his earlier works on labor economics. I refer to his *The Economics of the Color Bar* (Hutt 1964, henceforth referred to as *Color Bar*). This small book, as its name implies, is ostensibly about the economics of discrimination. It is, however, also about much more than this. It is a penetrating analysis of the history, sociology, and political economy of South Africa from its first European colonialization up to the time of his writing. (The subtitle, found on the inside title page, is *A study of the economic origins and consequences of racial segregation in South Africa*.) It is a book that took courage to write, a book that exhibits passion as well as scholarship, a book that is well worth reexamining one hundred years after the birth of this venerable economist.

The relevance of this work has, if anything, increased with time. At the time it was written it could be read as a profound and disturbing analysis that exposed the moral horror of apartheid in South Africa and implicitly prophesied its inevitable demise (something that was more difficult to do in 1964 than it later became). It was a conscience-raising work,

* This paper was prepared for the Southern Economic Association meetings in November 1999 for a session commemorating 100 years since the birth of William Hutt. William Hutt was born in London in 1899. He studied at the London School of Economics, worked for four years in the publishing business and in 1928 joined the University of Cape Town, South Africa as a Senior Lecturer. In 1931 he was appointed Professor and Dean of Faculty of Commerce, and later also director of the Graduate School of Business, which he inaugurated. He became Professor Emeritus in 1965. In 1966 he moved to the U.S. and took a series of visiting positions at the University of Virginia, Rockford College, Wabash College, Texas A & M University, the Hoover Institution, Stanford University, and California State College. His final appointment from 1972 onwards was as Distinguished Visiting Professor of Economics at the University of Dallas. Professor Hutt died in 1988. He is the author of numerous books and articles on labor economics, monetary economics, economic policy, and other topics.

but one also that annoyed many on both sides of the political spectrum in South Africa. It can be read today as a penetrating and controversial analysis of the roots of South Africa's *current* dilemmas in the post-apartheid period and of its tragic inability to deal effectively with these dilemmas. This is a dimension of his work that Hutt could not have foreseen, but it is one that his understanding of the social dynamics of political interest groups crucially informs.

In this paper I try to share with the reader both Hutt's passion and his scholarship. I review his approach to the economics of discrimination and compare it with some other approaches. I then consider Hutt's views on the role of constitutional safeguards against state-sponsored discrimination and how his approach isolated him as a sort of maverick among critics. I conclude by considering the relevance of his ideas for the current situation in South Africa.

2. Hutt and the Economics of Discrimination

2.1. *Hutt and Becker*

Gary Becker published the first edition of his *Economics of Discrimination* in 1957 (Becker 1971 [1957]). This work was apparently the first "economic" treatment of the question of racial discrimination. In his work, some seven years later, Hutt shows no familiarity with Becker's book. The two works are, however, related in some ways, and are very different and even complementary in others.

Becker has very little to say about the origins of discrimination and mostly assumes that "tastes for discrimination" are "exogenously" given. People have varying degrees of prejudice and discriminate to various extents in their behavior as consumers, producers, and workers. He investigates the possible outcomes that emerge in a competitive market under different taste configurations. Thus, he uncovers the familiar result that if the market is indeed competitive, if workers can compete by offering to compensate producers for any discriminatory tastes they may have by accepting lower wages, then nondiscriminators will tend to outcompete discriminators. In the extreme only nondiscriminating producers will be left in the market and wages will tend to equal workers' marginal products.¹ This type of exercise is not without interest and is a firm basis from which to critically analyze the wisdom of such programs as affirmative action and equal employment policies. From a broader perspective however, a perspective that would allow some insight into a situation like South Africa for example, it has serious limitations. It tells us nothing about the economics of discrimination as a matter of intergroup social dynamics. It is silent on the institutional context in which discrimination occurs. It ignores the more ultimate social and political-economic determinates of discriminatory attitudes and how they change over time. In these regards Hutt's work is much more satisfying not only as a specific case study, but also for its implications more generally about the constitutional imperatives faced by societies composed of populations in which large scale state-sponsored discrimination is a possibility.

Becker, in fact, has only one paragraph on South Africa, and he seems to suggest that the South African case is not within his scope of investigation. Thus he says,

The South African government has been active in regulating the economic activities of non-whites. For this reason the market discrimination produced by the competitive economic sector *may* be less important than that produced by other sources; . . . (Becker 1957:23—page reference here to the 1957 edition).

This is the sense in which the two works may be thought of as different and complementary. Becker investigated the way in which prior and fixed discriminatory attitudes would play out in a market process that is without regulation, and finds that the free market is the best way to deal with discrimination. Hutt, by contrast, deals with discrimination as *an instrument of regulation* and investigates the pernicious effects it can produce in that context.²

2.2. *Hutt's Thesis on Discrimination*

According to Hutt, the prejudice that underlies most discriminatory behavior is secondary to the social situation that allows such prejudices to be exploited for economic gain. In modern terminology one might say that Hutt's analysis is about discrimination as a form of rent-seeking.

Prejudice is simply a manifestation of powerful custom. I shall suggest that it will dissolve under the pressures released by economic liberalism as rapidly as other customs that are inappropriate in a wealthier and more diversified economy . . . I am concerned with influences that are hindering the dissolution of 'prejudice' and anachronistic custom . . . factors that may be held to be responsible for the 'injustice' presently endured by some—if not most—of the non-white peoples of the world (Hutt 1964:11).

In this way, Hutt suggested that the problem of discrimination lies outside of the market system, a view that flew in the face of the identification of unbridled colonial capitalism as the source of this evil. Indeed, according to Hutt, British colonialism, though far from being benign, was infinitely better than the system that replaced it. For under colonialism the British ruling class, though jealous of preserving the advantages of its race, nevertheless encouraged the inflow of investment from outside the country. Such investment was conducive to economic growth and rising living standards for all of the population and this would have done more to erode discrimination than anything else available.

In the event, by contrast, with the waning of British colonial influence and the failure to establish sufficiently resilient constitutional guarantees, the demographic realities left behind on the ground militated strongly in favor of a form of predatory behavior that proved to be the breeding ground for apartheid.

Briefly, the population of South Africa is composed of a variety of racial subgroups of which the main are four—whites, blacks, Indians (originally from the Indian subcontinent) and coloreds (people of mixed race descendant from whites interbreeding with the original, now extinct, indigenous peoples). Not surprisingly, given the inherited differences in cultures, languages, and abilities, this situation was ripe for the emergence of intergroup tensions. To further complicate matters two of the four main population subgroups are characterized by significant further subdivisions. The black population is divided into numerous language and tribal groups, some with very different cultures and

customs. But, more significant, the white population is divided into two main language and culture groups—the English, those whose native language is English (the descendants of the British immigrations that started from about 1806 and continued to modern times) and the Afrikaners (the descendants of the original Dutch settlers of South Africa of the seventeenth century), those whose native language was Afrikaans.³ The latter were a numerical majority among whites in the subcontinent, but their influence was muted until 1910 when the four separate republics then existing in southern Africa were merged into one single union and modern South Africa was born. This occurred subsequent to the Boer War in which the British managed to earn the enduring enmity of the Afrikaner population. Evoking the familiar proverbial expression, the British won the war but lost the ‘peace.’

The English/Afrikaans cultural and language division coincided exactly with a division in economic class. The Afrikaners were overwhelmingly rural, uneducated and poor. The English were predominantly urban, skilled, and middle class. The employers in the main lines of employment, the mines were all English as were the skilled workers. The unskilled white workers were predominantly Afrikaans. The origins of institutionalized race prejudice in South Africa, according to Hutt, lie in this so-called ‘poor-white’ problem. It was in order to protect and maintain the economic superiority of white workers that racial discrimination was institutionalized.

The underlying economic theory is the theory of non-competing groups. By forcibly preventing other groups from competing with it, a dominant group may be able to achieve a relative monopoly of its services and thereby not only raise its average wage, but also achieve an economic distance from the groups excluded. The group that engaged in this type of behavior in South Africa were the white workers. Starting with labor actions in 1907 and first enacted into law in 1911, white workers attempted, with unfortunate success, to exclude non-whites from the most lucrative jobs, first in the mines and then in the rest of the economy. They used a number of different strategies, varying in subtlety and hypocrisy, from punitive union strikes to the establishment of ‘rate for the job’ legislation, a strategy that excluded non-whites by preventing them from competing much in the same way as minimum wage legislation works today—and supported by the argument that to pay less was unconscionable. In addition, whites were able to pursue a sort of ‘divide and rule’ policy by exploiting the existing antagonisms between the non-white subgroups.

These observations establish the important point that apartheid was not sprung suddenly upon the scene by a group of diabolical extremists. Though much vaster in scope, and thus vastly more damaging, apartheid was the continuation of a long tradition, a tradition that established the legitimacy of, indeed the imperative to, protect the white working class and maintain its economic superiority.

The broad conclusion . . . is that the survival of color privilege is more a *consequence* than a *cause* of economic color discrimination and injustice . . . demographic exploitation of the moral weaknesses from which all races suffer has perpetuated restraints on the competition of the non-whites and thereby maintained them in a position of economic inferiority (Hutt 1964:30 (italics added)).

3. A Lonely Critic

In delivering this message in 1964 Hutt inevitably offended a number of separate and opposed political constituencies. From the left-liberal perspective it was heresy to suggest that the white workers were responsible for apartheid. The left-wing movement in South Africa, with strong ties to socialist and communist support abroad, was committed to the idea that apartheid was the instrument of white capitalist exploitation. It was, in their eyes, a method of subjugating and cheapening non-white labor and thereby inflating profits. White workers were seen as the natural ally of non-whites.

Color Bar exposes both the logical fallacies and the historical inaccuracies of this position. Hutt shows how it was quite opposed to the interests of the white employers to 'cheapen' black labor, for to do so implied an unacceptable sacrifice in productivity. There was in fact a severe shortage of skilled workers and white employers had an interest in, and are in the historical record as, opposing the exclusion of non-whites from working in and training for skilled jobs. Hutt shows that, on the contrary, the employers were willing to pay for the accumulation of such human capital.

Neither the shareholders nor the administrators of the mines were responsible for color bars or the withholding of opportunities of advancement from Africans.⁴ On the contrary, as far as organized labor and politics allowed, the mining interests always tried to prevent restrictions on the scope of African employment (Hutt 1964:53).

One may wonder, if this is the case, why white employers never came to exert any effective political pressure behind their desire for a democratic workplace. The truth, according to Hutt, is that from those early days onwards, no white employer would dare risk the wrath of the white worker alliance (which included both Afrikaner workers and newly-imported British artisans who were steeped in socialist trade-union practices) and the Afrikaner political establishment that supported it. The threat of strikes and violent work disruptions was rendered credible by the long and bitter strike and violent work disruptions that occurred in 1911. From that time onwards no white employer wanted to risk the provocation of similar events.

[I]t appears to have been thought politic, for the sake of harmony, to confer by law those privileges which white miners might otherwise have been encouraged to seek by strike action. It was felt that, unless Africans were excluded from opportunities by legislation, intermittent and violent private steps would be taken to enforce the exclusion. Against this background, the Mines and Works Act of 1911 (which has been aptly termed the 'Colour Bar Act') was passed. This legislative sanction for the color bar was, however, a concession not only to socialist and labor pressures, but equally an appeasement of Afrikaner sentiment (Hutt 1964:62).⁵

This established the enduring pattern of South African political realities. It was only when finally in the early seventies that the white business establishment, now including a large emergent Afrikaner business class, finally prevailed upon the government to recognize the prohibitive social cost of apartheid that it began to be dismantled.

In addition, he maintained not only that white labor union power was the source and driving force of early discrimination, but also (paradoxically) that the denial to non-whites of the right to unionize actually benefited them as a group economically.

Naturally, it appears to be grossly unfair to deny any laboring class and especially the Africans the right to organize when these rights are permitted to other classes and races. And yet virtually the only legislative provisions which have facilitated the rise of the Africans in the economic sphere have been those which have prohibited or otherwise hindered their right to strike. . . . Unless they could use strike power (a) to force the state to abandon those restraints on the free market which have borne so unfairly upon them; or (b) to break such economic power as is possessed by the white labor unions, they could *as a group* gain nothing thereby (Hutt 1964:108 (italics added)).

But the conventional wisdom of the left-wing movements both in South Africa and abroad would not abide such suggestions. Thus, a cogent and committed opponent not only of apartheid, but of all forms of color discrimination, had alienated himself not only from those who were the target of his criticisms, but also many of those who might have been expected to join him.

As to those who were the target, the Afrikaner political establishment, their hostility was redoubled by the fact that Hutt eschewed the usual left wing criticism and had the temerity to suggest that apartheid was the child of an unholy alliance between the fledgling Afrikaner political movement and socialist workers. The enforcers of apartheid were, after all, paranoid about the dangers to white civilization posed by communism, and had instituted all manner of arbitrary measures to ensure that it never took root in the Republic. Hutt was thus twice damned—a heretic in the eyes of both sides of the political spectrum.

4. Discrimination as a Form of Central Planning

It is more than half way through the book before Hutt finally gets to the apartheid era. It is seen by him as the culmination of the progressively encroaching power of the central government on all aspects of economic and social life. It is finally just another form of central planning.

It is difficult to imagine a better illustration than is provided by South Africa of the truth that the fight against color injustice is actually against the consequences of planning on the collectivist model. Every repression of the Africans has, at the same time, been a repression of the free market. It is so-called 'central planning' which has caused African labor to become regarded as a mere source of useful, unskilled, muscular strength. And it is profit incentives which have tended powerfully to raise the material standard of Africans, to develop their latent powers, to raise their status and prestige in a multi-racial society, and ultimately to win for them equality of respect and consideration. [It is central planning] that has prevented investment in Africans as human capital; it has substituted for the delicate and sensitive coordination effected by responsible decision makers—subject to the

disciplines of the loss-avoidance incentives—the decisions of officials controlled by no such impartial disciplines (Hutt 1964:136–137f).

Apartheid, involving as it did an all-encompassing vision for remaking the entire country along racially separate lines, implied the absolute central government control over all non-white, and especially black, workers. And this absolute control necessarily implied the existence of all kinds of supporting controls on all elements of the population, what Hutt referred to contemptuously as “totalitarian paraphernalia” (ibid.:126). In the final analysis, it was more than a vision, it was an obsession and everything else became subservient to it. Hutt: “The determination to preserve ‘white civilization’ is not ignoble. But the unwillingness to share it is incapable of defense and the methods used expose that ‘civilization’ to contempt” (Hutt 1964:28).

Apart from the moral aspects, however, apartheid, like all forms of central planning is characterized by two key features. First, because it substitutes central direction for decentralized decision making, it is doomed ultimately to fail. It becomes more and more costly to administer as failures of planning mount up taxing the resources of the white income earners.⁶ And second, a point emphasized by Hutt, apartheid (and central planning in general) is characterized by a crucial lack of constitutional protections.

This is, I feel, the most vital point of my whole thesis. Unless parliaments are restrained by iron-clad constitutional entrenchments, political majorities, as defined and distorted by electoral laws and voting procedures, will almost always be tempted to exploit their power tyrannically, that is, without true regard for the rights or feelings of political minorities or for those who lack effective political representation. The majorities in the white constituencies, to which the authors of the Group Areas program have successfully appealed, have *wanted* to humiliate the non-whites. Let us be under no illusion on that point. This is partly because one of the parties found it profitable deliberately to foster racial pride, racial prejudices, racial fears and racial hatreds. But do not the almost sadistic aspects of the laws I have been discussing expose the undemocratic weakness of certain forms of representative governmental machinery (Hutt 1964:115–116f).

But, again, it is not only to the ideologues of the ascendant Nationalist government of 1948 that we should look for an explanation, but further back to the South African government in the middle and late 1930's which was “an unholy and uneasy coalition” of the liberal and not-so liberal. It was during that era that some basic constitutional guarantees for minorities, a legacy of the constitution put in place when the British formed the union in 1910, were systematically and cynically removed.⁷ Hutt in 1937 was strongly attacked in the *Cape Times* when he charged that South Africa had carelessly “torn up [its] constitution” (ibid.:19–20f).

Finally, with an eye perhaps to the future and certainly with a relevance to South Africa's current situation, Hutt comes in the final chapter to following assertion.

Some argue that the defect of central planning in South Africa is simply that non-whites are without effective political representation. If all races were properly represented, they believe, the power of the state could be used for the benefit of

all, instead of for the benefit of the whites. But this is a partial truth. Universal suffrage would merely mean the transfer of power to a new political majority, *with no constitutional limitations to prevent retaliatory abuse*. If there is to be a bloodless solution to South Africa's race problems it will, I suggest, demand the acceptance of the philosophy of free enterprise, better described as 'liberalism' in its 19th century sense. The ethos of this philosophy is that it denies the right of the state to discriminate (Hutt 1964:178 (italics in original)).

5. Hutt from a Post-Apartheid Perspective

From today's perspective Hutt's ideological pronouncements may sound naïve to some ears, a kind of tilting at windmills. The truth, I would submit however, is that his insights remain extraordinarily valuable for an understanding of all kinds of racial and ethnic conflict. In addition to the basic point about constitutional safeguards, Hutt is, in a sense, a realistic optimist about human nature. He tries to assure us that the ugly side of human nature, the side that manifests in all manner of prejudice and abuse is remediable, if not in its attitude at least in its effects. Prejudicial attitudes are seen as both cause and result in a dynamic social, historical web of individual and group interaction. And while such attitudes are shrouded in difficult to penetrate causal complexities, their effects are not. The deleterious effects of, perhaps normal, human prejudices can be substantially diminished if a society is somehow able to adopt (perhaps by a process of Hayekian institutional evolution) those institutions that guarantee equal individual protections. Such a society, by virtue of the economic growth it will achieve, may furthermore succeed in undermining race and other prejudice to such a degree that those very attitudes themselves erode over time as people, in the interest of economic profit, learn to work together. In the final analysis, "We are concerned . . . not with the human failings which have led to race injustices but with the types of social organization which permit and buttress these injustices" (Hutt 1964:73).

In perhaps his final work on South Africa, in 1986, Hutt offered a proposal for a peaceful transition to a democratic society. Not surprisingly, knowing Hutt, this proposal is likely to strike most as extremely controversial at best and totally unacceptable at worst. He rejects the idea of universal suffrage arguing, as he did earlier, that it would imply merely a transfer of power from one political majority to another and pave the way for retaliatory abuse and variations in central planning. Instead he proposes that suffrage be qualified by wealth on the grounds that those who have wealth would understand and appreciate the importance of the market process in the generation of wealth.

That such a proposal was a patent non-starter should not obscure its essential message. Hutt was warning against the kind of abuses that currently characterize the South African political agenda⁸ and that are responsible for the endemic poverty and violence that exists in South Africa today. In 1986 he could still write:

Genuine reformers in South Africa could plan for methods which would reduce the power of those politicians who seek to thrive on persistent poverty and injustice. There is no need for penury to persist. My recommendations do demand, however, high political courage; and my fears are less of fanaticism by white demagogues

than of the power black politicians are all too likely to wield in an attempt to obstruct constructive advance (Hutt 1986:46).

That his fears have come to pass would have saddened but not surprised William Hutt.

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Notes

1. Under some circumstances the workforce will be segregated by race between discriminating and nondiscriminating employers.
2. Formal approaches along these lines are provided by Krueger (1963) and Arrow (1971). For an approach that uses these models applied to the case of South Africa see Lewin (1979). Like Hutt, Arrow attempts to “go behind” tastes and account for their emergence and persistence: “[It may be a] question of group interests . . . the values inherent in discrimination uphold a structure that is profitable to those holding the values . . . discriminatory tastes . . . are themselves the mechanism by which discrimination profitable to the whites is carried out The crucial question . . . is whether, the acceptance and preservation of racial attitudes are in some way related to their profitability to the group Why certain groups perceive themselves as having common interests and not others is a question But given group identification, it is not so unreasonable that the members of the group will work together to promote group interests” (Arrow 1971:24–26).
3. It is important for the reader to keep in mind that the term “Afrikaner” is to be carefully distinguished from “African.” The former are the white descendants of the original Dutch colonists of South Africa, while the latter term is used to refer to the black tribes that came to occupy the subcontinent about the same time. While the Afrikaners speak Afrikaans (a derivative of Dutch) the Africans speak a variety of African languages. A common distinction in the first half of the twentieth century was between Europeans (whites, English and Afrikaners) and Africans (blacks).
4. See note 3 above.
5. Some other relevant pieces of early legislation were the Factories Act of 1918, the Apprenticeship Act of 1922, and the Industrial Conciliation Act of 1924. The last mentioned was later used (as amended) by the Nationalist Government as one of the pillars of apartheid. The Mines and Works Act was amended in 1926 by the Nationalist-Labour ‘Pact’ to satisfy the demands of the 1922 strikers. It established, according to Hutt, “the most dishonest and yet effective plan for enforcing a color bar the world has ever experienced” (Hutt 1964:68). This interwar legislation formed the basis of the pre-apartheid so-called ‘civilized labor policy.’
6. See Lewin (1986). Curiously, Hutt does not mention or reference Hayek or Mises on the socialist-calculation debate and the “knowledge-problem” that it implies, although it is clearly relevant in this context.
7. The union of South Africa in 1910 out of the four colonies (The Cape, Natal, The Orange Free State, and The Transvaal, which became provinces) was purchased by providing constitutional guarantees against the removal of the political rights possessed by non-whites in the Cape. It was expected that the ‘liberalism’ of the Cape would gradually spread to the other provinces. In the 1930’s these entrenched clauses were systematically removed.

8. South Africa's current political agenda may be characterized as "affirmative action with a vengeance." All aspects of economic and public life are constrained by regulations designed to redress the balance of the harm caused by the decades of apartheid and discrimination. The result is a return to pervasive central planning, with all that that implies. All social ills and economic inefficiencies are blamed on the legacy of apartheid. Corruption is rife, human and physical capital are fleeing the country at every opportunity, unemployment is around forty percent, crime is rampant, and the social fabric is being slowly but surely dismantled.

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