

SOME ASPECTS OF HOUSING ECONOMICS
WITH REFERENCE TO THE COLOURED
POPULATION OF SOUTH AFRICA

Dissertation

Submitted in Partial Fulfilment
of the Requirements for the
Degree of
MASTER OF ARTS
of Rhodes University

by

SADRADDIN FARABI

February 1981

CONTENTS

	<u>Page</u>
INTRODUCTION	iii
CHAPTER I : CYCLICAL FLUCTUATIONS AND HOUSING IN SOUTH AFRICA	1
1. Business Cycle Theory	1
2. The Business Cycle in South Africa	8
3. The Building Cycle	10
CHAPTER II: THE HOUSING MARKET AND REGIONAL ECONOMICS	22
1. The Housing Market	22
2. Regional Economics and Residential Location	28
(i) The macro-economic approach	29
(ii) The micro-economic approach	37
3. Housing as a Merit Want in South Africa	42
CHAPTER III: THE COLOURED POPULATION AND HOUSING IN SOUTH AFRICA	58
1. Some Demographic Properties of the Coloured Population	58
2. Some Economic Properties of the Coloured Population	61
3. Coloured Housing Perspectives	65
CHAPTER IV: THE COLOURED POPULATION OF GRAHAMSTOWN	77
1. The Demographic Background	78
2. Economic Implications	88
3. Coloured Housing in Grahamstown	95
CHAPTER V : COLOURED HOUSING AND ECONOMIC EFFICIENCY IN SOUTH AFRICA	104
LIST OF GRAPHS	113
STATISTICAL APPENDIX	114
Table 1 : Value of Residential Building Plans Passed and Buildings Completed	115
Table 2 : Housing Units Provided out of State Funds	117
Table 3 : Average Per Capita Earnings in Manufacturing	118
BIBLIOGRAPHY	119

INTRODUCTION

One of the outstanding properties of economic life is the often observed unevenness of economic performance with respect to time and place. The study of economic history, or any systematic reconstruction of economic events, shows that although economic growth has been unmistakable in the long run, it has also been characteristically uneven over shorter periods of time. Perhaps the most obvious manifestation of such economic variability over time, certainly in market-oriented economies, has been the business (or trade) cycle, i.e., the recurring cumulative rise and fall in economic activity, the causes of which have been of both internal and external origin.

Since the Second World War, the international community has devoted much attention to the problems of economically less developed countries and societies. After more than three decades of deliberate development efforts, less developed societies have, on the whole, experienced some significant economic progress. Yet such progress has tended to be selective and there remain today vast discrepancies between the economic status and performance of different parts of the world, as well as between different regions within the same country.

In general, the approach adopted in the study of the business cycle and of economic development has tended to be macro-economic in nature, admittedly involving some considerable disaggregation of empirical data. However, the study of regional economics has increasingly evolved along micro-economic lines as well, involving as it does the reaction of supposedly rational individuals (investors, workers) to various economic stimuli. This shift in methodology, that is, the incorporation of an explicit micro-economic dimension in the analysis of broad economic issues, has recently also become noticeable in the field of development economics. Briefly put, the essence of the micro-economic "approach" is that individual decision-takers maximise some (rational) objective, or set of objectives, within a number of given constraints. Eco-

economic development, therefore, involves not only aggregates such as total resource endowment, but also the constraints within which the available resources are utilised. Perhaps the main point to be made here, is that disappointing economic performance is not necessarily always the outcome of insufficient resources, but also of restrictions and imperfections that may govern the actions of individual decision-takers.

These rather wide-ranging issues are fully reflected within the scope of the South African economy. Not only has South Africa been liable to intermittent cyclical fluctuations affecting all sectors of the economy and all regions within the country, but it also represents, in a microcosm, the international dichotomy between rich and poor societies. Moreover, vast economic discrepancies exist between different geographic regions within the country as a whole, whatever the phase of the business cycle may be. Readily identifiable population groups also find themselves at different stages of demographic and economic development.

Within this varied setting, South Africa's Coloured population group occupies a so-called intermediate position, that is, in terms of economic status and performance it falls (like the Asians) between the Black and White population groups. In order to draw some economic generalisations against a vast background of heterogeneity and change, this study concentrates, to some extent, on the position and behaviour of South Africa's Coloured people. To narrow the scope of the enquiry further, some special attention is paid to the position of housing within this context. The main reason for this is that the demand for and the quality of housing are also matters which are greatly affected by the process of economic development, the market for housing itself being extremely heterogeneous. Finally, the study also has a regional focus of an "intermediate" nature, in that it specifically looks at the Coloured population of Grahamstown, which is neither rural nor metropolitan in

its structure. It is hoped that by conducting the enquiry at this confined yet multi-focal level, it will be possible to relate its subject matter to the concept of optimal behaviour in a largely micro-economic context. In view of present policies to limit the role of government and to stimulate private enterprise in South Africa, the issue of optimal resource allocation within the private sector of the economy would seem to be of topical interest.

The various parts of this study are set out as follows: Chapter I discusses cyclical fluctuations with reference to the South African housing market; Chapter II outlines seemingly relevant locational factors with regard to optimal residential choice; Chapter III gives a broad overview of the economic position of South Africa's Coloured population, again with some reference to the housing situation; while Chapter IV specifically looks into the relationship between demographic-economic variables and Coloured housing in Grahamstown. Finally, Chapter V attempts a broad synthesis of Coloured housing and economic efficiency in South Africa. The relevant references (footnotes) appear at the end of each chapter.

.....

I would like to record my thanks for assistance received in this study to a number of persons attached to Rhodes University. They include my supervisor, Professor M.L. Truu, and also Mr. P.A. Black, both of the Department of Economics. Members of the Department also greatly assisted me in connection with language and style. Professor S. Bekker of the Institute of Social and Economic Research also supplied much useful information, while the staff of the University Library were most helpful in a large number of ways. Finally, I would also like to thank the Town Clerk of Grahamstown for his kind assistance.

CYCLICAL FLUCTUATIONS AND HOUSING IN SOUTH AFRICA

1. BUSINESS CYCLE THEORY

Records show that periods of crises and distress are almost as old as human history, yet the general term "business cycle" was only coined in the 20th Century, evolving from changing terminology such as "languishing trade", "commercial crises", "periodic crises", "credit cycle", "industrial depression", and "investment cycle". The arrival of recurrent cycles cannot be exactly dated, but according to Estey¹ "their first definite and undeniable appearance occurs in England at the beginning of that modern period ushered in by the end of the Napoleonic Wars....when the country began displaying the essential characteristics of modern industrialism."

Business activity is very seldom smooth. The process of business change can be reduced to several constituent elements, of which we will be mainly interested in the cyclical component. Thus the study of time series must consider the following:

1. The secular trend, which is the long-term tendency of the activity to grow (or to decline). A rising trend is related to factors such as population growth, increased productivity, and innovations.
2. Seasonal variations, which occur in regular sequences at specific intervals of time. They are usually associated with seasons of the year.
3. Random or erratic variations, which occur in a completely unpredictable fashion. These may be the result of for e.g., wars, strikes, floods, fires, earthquakes, and political events.
4. Cyclical fluctuations. These are movements that represent consistently recurring, but not completely regular rises and declines in activity.

By using various statistical devices it is possible to remove the trend and the seasonal variation from a time series, i.e. to distinguish growth and seasonal variation from cycles. Because it is not statistically possible to eliminate random fluctuations satisfactorily in this way (and because they

can cause cycles), it is reasonable to include them with cyclical movements as the residual components of the time series. When this is done, business activity measures invariably show a series of fluctuations over time known as business cycles.

Burns and Mitchell² define business cycles as "a type of fluctuation found in the aggregate economic activity of nations that organise their work mainly in business enterprise; a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than 1 year to 10 or 12 years." The level of employment is closely related to the level of economic activity. As output and employment fluctuate, prices will change in response to changes in aggregate demand and in marginal costs. Thus Hansen³ defines the business cycle as consisting of fluctuations in

- (i) Employment
- (ii) Output
- (iii) Prices

The term business cycle is perhaps a misnomer because it implies that the wave-like movements are periodic, and that they have the same amplitude. This is of course not true since there are numerous factors which affect business activity and in different ways. Pigou said that although cycles are of the same family, they are not identical twins.

At this point it is necessary to define certain other concepts. A distinction must be made between "observed" and "unseen" cycles. We could for example "observe" the percentage deviation of GDP from a rising trend. However, one cannot accurately determine general cyclical movements for the economy as a whole by studying single series in isolation (even if they are composite ones like the GDP), so that numerous series are used to determine general

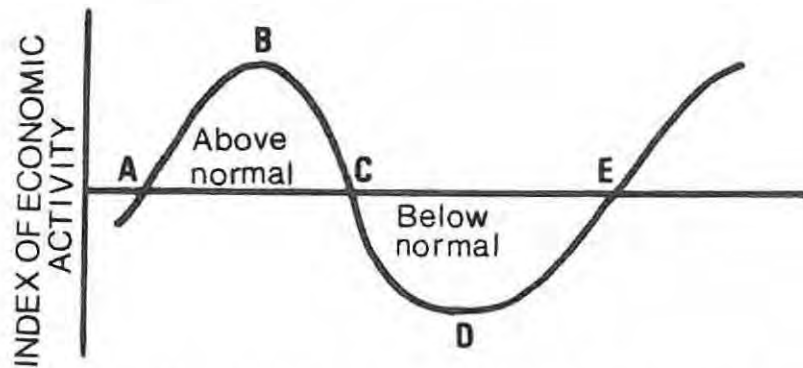
turning points for the economy. Hence it is obvious that there will be a wide dispersion of different cyclical peaks and troughs at any given time, with some series rising while others are falling. This point is clearly illustrated by the fact that even though South Africa recently (1974-77) experienced a severe recession, there were nevertheless some firms enjoying increasing turnovers and profits, for example, firms with defence contracts; suppliers of certain farming and mining equipment; firms with large proportions of foreign sales; motorcycle distributors; tyre retreaders; hotels close to cities; security services; suppliers of TV dinners and frozen foods.⁴

An unseen cycle is constructed by studying a large cross-section of different time series. By plotting the percentage of these series which are rising one obtains a movement in aggregate actively known as the diffusion index. When more than 50% of the series are rising this indicates an upswing, and vice versa for a downswing. This is an unseen cycle because it is merely a schematic composite of both rising and falling series, with no magnitude attached to the upswings and downswings.

One does not however often hear of seen and unseen cycles. It is more common to hear of a reference cycle in place of an unseen cycle, and a specific cycle in place of a seen cycle. Reference cycle peaks and troughs represent the approximate dates when aggregate economic activity reaches its high and low levels. Specific cycles plot the movements of individual time series.

In connection with the phases of the business cycle, Schumpeter regards the mark-off points as being designated by the points of inflection, which he calls the "neighbourhoods of equilibrium".

Figure I : Business Cycle Model



AB - Prosperity BC - Recession
CD - Depression DE - Recovery
B - Peak D - Trough
A, C, E - Points of Inflection

Schumpeter thinks in terms of a cycle having the four phases prosperity, recession, depression, recovery. The further the economy moves away from the neighbourhoods of equilibrium, the stronger the forces become that stop these movements.

On the other hand, Burns and Mitchell regard the peaks and troughs as being the mark-off points. This is the most common way of measuring cycles, and is much easier to apply than Schumpeter's method since peaks and troughs represent much clearer mark-off points. The greater part of the cycle is then divided into an expansion phase from trough to peak, and a contraction phase from peak to trough.

The expansionary and contractionary movements which constitute business cycles are believed to be caused mainly by fluctuations in the volume of real investment. When autonomous investment is increased this produces via the multiplier a magnified increase in income. This results in an increase in final demand, which may in turn, via the accelerator induce further investment in order to meet this demand. The interaction between the multiplier and the accelerator is (depending on the parameter values) capable of producing cycles. But there are several other important factors such as monetary, psychological,

international, and balance of payments aspects which affect the course of the cycle.

There are numerous business cycle theories. This can be very confusing because even if one theory fits all cycles, it is still possible to have a number of different explanations which are not logically exclusive or contradictory. This happens because a theory normally stresses one or two relevant factors as dominant or causal.

Basically the business cycle is explained in terms of a combination of exogenous and endogenous factors. An exogenous explanation relies on external disturbances such as climatic factors, wars and political events, rates of growth of population, discoveries of new lands and resources, inventions and technological discoveries; whereas endogenous theories rely on movements which are inherent in the economic system and in the growth process. Endogenous factors give rise to self-generating fluctuations, where every expansion automatically leads to recession and contraction and vice versa. These theories are dynamic in that some of the variables in the economic system depend on lagged values or responses of others, or on their rates of change.

In practice one cannot have either a purely exogenous or endogenous theory. External disturbances do not for a start occur in a periodic manner; the system does not respond without time-lags, and it would be extremely difficult to determine turning points, and how for example harvest variations are converted into general alterations of expansion and contraction. On the other hand, even if a purely endogenous cycle could repeat itself for ever, it would most certainly be influenced by outside forces. A theory often has an originating factor or starter, which triggers off the cumulative cyclical process. Exogenous forces also have the power "to accelerate, retard, interrupt or reverse the endogenous movement" of the system, which makes, as Haberler says, perfect cyclical regularity a priori improbable.⁵

The full employment level acts as the ceiling beyond which it is physically impossible to extend output. Hicks says the economy can creep along

the ceiling for a while (which rises as population grows and technology improves), but must sooner or later "bounce" off it due to the slowing down of the accelerator via the check on national income.⁶ The resulting fall in investment pulls down income even further via the multiplier, so that a contraction gets under way. There are several types of shortages and bottlenecks that can occur:

(i) Full employment of labour: In South Africa this is felt very strongly in the skilled labour market. Since investment fluctuates more violently than consumption bottlenecks are likely to occur in these industries first. Labour transferability is limited in the short run, so that the expansion is slowed down or stopped.

(ii) The Monetary ceiling: This is especially important where the money supply is tied to the country's foreign exchange reserves, and is relevant to open economies like South Africa. This leads to:

(iii) The balance of payments ceiling: This is an extremely important buffer to expansions in South Africa. Approximately 80% of South Africa's imports consist of intermediate and capital goods, and since the propensity to import is very high, this means that a boom is usually restrained by a deficit on the balance of payments.

The notion of the floor is explained in terms of the fact that in reality disinvestment cannot occur at a faster rate than the cessation of gross investment, even though the accelerator might warrant a much faster rate. This means that the intensity of a downswing is arrested, as this wearing-out process might take a very long time. The economy then gradually approaches the position where the capital stock is reduced to the desired level. At this stage, when plant wears out it will have to be replaced, so that gross investment again becomes positive. This sets first the multiplier and then the accelerator into action, so that the upswing gets under way.

Although this is a purely endogenous explanation of the revival which

occurs automatically with explosive cycles, it should be apparent that exogenous forces such as inventions or increased exports can hasten the upturn.

The accelerator principle is often applied to inventories since it is usual for businessmen to maintain inventories bearing some relation to sales. As sales increase, inventories become run down so that orders must be increased to build them up to the desired ratio. When sales fall disinvestment occurs while inventories are run down until they are again in line with sales.

If inventory investment is subject to the accelerator, it can in conjunction with the multiplier result in fluctuations of income, but these cycles will tend to be shorter than those originating from fixed investment. The reason for this is that being less durable than capital, inventories turn over more rapidly so that investment decisions can be based on the current situation and expectations of the immediate future. Replacement is also much quicker than for capital stock.

Passive inventory change occurs when output does not respond to changes in sales. However, Metzler maintains that this is unrealistic because businessmen will normally try to replace inventories run down by an unexpected increase in sales, or to reduce them when sales fall.⁷ He therefore considers a model in which allowance is made for such changes and where the rate of expectations is also introduced. If for example a businessman is optimistic he is likely to increase his inventory orders out of relation to the past sales volume, and vice versa if he is pessimistic - quick thinking and action are the mark of a successful businessman.

These models result in cyclical swings of income occurring from changes in inventory investment.

After the Keynesian revolution real factors were considered to be the major causes of business cycles, and monetary factors were relegated to a fairly subordinate role. However, with Friedman's revival of the importance of money, the position has changed considerably, and monetarists have attempted

to show a causal relationship between changes in money, and changes in national income, and real factors have been largely overlooked. However, a balanced view of "the" theory of the business cycle should surely draw on aspects of all the major theories.

2. THE BUSINESS CYCLE IN SOUTH AFRICA

Turning points of the post-World War II business cycle in South Africa have been determined by Smit and van der Walt up to 1972,⁸ with subsequent analysis undertaken by de Kock.⁹

There are three main methods of determining turning points, namely the growth rate of composite or aggregate series, cluster of turning points, and diffusion indices. The South African turning points were computed mainly from a combination of the last two methods, of which the diffusion index is the most interesting, and perhaps also the most important. Personal judgement was also taken into consideration, especially in the elimination of the trend, and in choosing time series that were useful for economic diagnosis. In this respect, series that did not show clear cyclical movements were excluded, and the number of price series was restricted because the emphasis was on real economic activity.

In determining the South African reference dates a sample of over 200 time series was used, many of which were available for only a part of the period since the war. Apart from eliminating the season and the trend, adjustments were also made for the number of trading days in a particular month. Inverse scales were used for some series such as employment.

The results of the three different methods were found to be very similar, and did not differ by more than 4 months for any of the reference dates. This is quite remarkable since Smit and van der Walt say that "under normal circumstances it is not possible to determine a turning point of the business cycle within a short period of time such as a month."¹⁰

In arriving at final reference turning points, the result of all three of the methods were taken into account, as well as the turning points of important composite and individual series. These final turning point dates are as follows:

<u>Upswings</u>	<u>Downswings</u>
Post-war - July 1946	Aug. 1946 - Apr. 1947
May 1947 - Nov. 1948	Dec. 1948 - Feb. 1950
Mar 1950 - Dec. 1951	Jan. 1952 - Mar. 1953
Apr. 1953 - Apr. 1955	May 1955 - Sep. 1956
Oct. 1956 - Jan. 1958	Feb. 1958 - Mar. 1959
Apr. 1959 - Apr. 1960	May 1960 - Aug. 1961
Sep. 1961 - Apr. 1965	May 1965 - Dec. 1965
Jan. 1966 - May 1967	Jun. 1967 - Dec. 1967
Jan. 1968 - Dec. 1970	Jan. 1971 - Oct. 1972
Nov. 1972 - Aug. 1974	Aug. 1974 - Dec. 1977
Jan. 1978 -	

The time series for the study were chosen from the following sectors:

1. Agriculture, forestry, hunting and fishing.
2. Mining and quarrying.
3. Manufacturing.
4. Construction.
5. Electricity, gas and water.
6. Transport, storage and communication.
7. Trade.
8. Financial services.
9. Fixed property.
10. General government.
11. Other services, such as new companies, and mortgage bonds registered.
12. Sundry series, such as balance of payments data.

It is not altogether unrealistic to view the influence of foreign economic activity in so far as it affects South Africa's balance of payments, as being the tail that wags the dog, i.e. the domestic economy. Perhaps this is putting it a little strongly, because although exports depend on economic conditions abroad, imports depend on conditions in South Africa. Nevertheless, the balance of payments remains the most important factor affecting the course

of the business cycle in South Africa.

There exists evidence to the effect that the pattern of South Africa's cyclical fluctuations may have changed significantly in recent years. The reasons for this are to be found both in the international and the domestic economy, and include the following: the breakdown of the Bretton Woods system and its replacement by "floating" exchange rates, international transfers of income associated with the oil crisis, accelerating inflation and a substantial increase in the price of gold.

According to de Kock, a cyclical upswing no longer puts the current account on the balance of payments under the same pressure as before. A deficit is now expected to occur "only fairly late in the upswing, i.e. around the upper turning point of the business cycle."¹¹ Also "It is probable that in future the surplus on the current account will appear sooner after the commencement of the downswing than in the past."¹² De Kock summarised the net effect of these developments as follows: "...the typical downswing might well be milder in the future than in the past and, depending upon the precise form which the new upward impulse takes, the succeeding upswing might tend to gain momentum more rapidly than in the past."¹³

3. THE BUILDING CYCLE

The existence and behaviour of a house-building cycle has been the subject of some controversy among economists, although most writers appear to agree that it shows strong fluctuations. Economic literature before and immediately after the Second World War often refers to a residential construction cycle in its own right, with a duration of about 20 years. Matthews, for example, observed a cycle of this (average) length in the United States between 1860 and 1950, and a rather longer one in Great Britain.¹⁴ Cycles of roughly 20 years in length have also been observed in Germany, Sweden and Canada.¹⁵

At the centre of most controversies is the interaction between the house-building cycle and national income. J.M. Clark refers to large irregularities

in residential construction "combined with a large average lead"; moreover, he views residential construction as belonging to the category of consumption goods that exhibit the largest and most frequent cyclical lead.¹⁶ Matthews, in turn, refers to the reactions lags in this context.¹⁷ Tinbergen is of the opinion that the general business cycle does affect the housing cycle, but only to a relatively small extent.¹⁸ He doubts the validity of such theories and statements that "building moves against the cycle", and contends that such inferences depend on the particular year(s) observed. He mentions that, in the past, the abundance or shortage of housing has been the chief cause of house-building; the current supply of houses has therefore very little connection with the current level of economic activity, in contrast with the supply of non-durable (consumer) goods. In this context, he also refers to the sensitivity of the supply of housing to changes in confidence. Hence, he concludes that purported leads on lags tend to depend on the year(s) of observation, and also disagrees with alleged counter-cyclical movements.

More recent literature has largely abandoned the notion of a long-term building cycle, because of a lack of empirical evidence in the period after the Second World War, and, instead, refers to short-term cycles (of 3 to 5 years) in house-building during more recent years. Against the background of short-term cycles, the counter-cyclical pattern of residential construction is also given renewed emphasis.

Most economists regard population change a major determinant of the level of housing activity in the long run. In the past, major booms in house-building have tended to coincide with a boom in population growth. A decreasing population almost never stimulates building activity. Although total population numbers are significant, the number of households, marriages and reduction in the number of households who live together and instead acquire separate accommodation, as a result of marriage, increase in income etc., are more meaningful in the present context.

Migration is another important cause of population change and therefore a determinant of the level of housing activity. It has thus been observed that countries which experience a net gain of immigrants sustain a higher level of building activity than those with a net loss. In the latter case, there have often been slumps in the field of house-building. Urbanisation is yet another cause of population shifts, leading to housing shortages in metropolitan areas and industrial regions, and probably to a surplus supply in rural areas. However, certain qualifications should be made here, seeing that building activity may be stimulated by rising per capita income, as a result of population decrease. Also, an increase in population may also increase the intrinsic need for housing, but it does not follow that there will also be an increase in effective demand. Hansen and Lundberg have, for example, pointed out that increases in house-building are unlikely to be directed to housing for the lower income groups, where the most urgent need exists.¹⁹

It is sometimes argued that although increased house-building by the private sector may, in the first instance, serve to supply houses to the upper and middle income groups, the consequent movement of these persons to their new homes does, in turn, serve to make the thus vacated houses available to the next-lower income group; this process is said to continue until the housing needs of even the lowest income groups have eventually been met. In practice, however, the supply dries up well before reaching the lowest income groups. Also, because of the great demand for housing by these groups, the price of the old, vacated houses may rise to a level where hardly any benefit remains for them. Consequently, government intervention in the private sector, via tax cuts, easy long-term loans, etc. will not necessarily eliminate the excess demand (or need) for housing.

Hansen has written that extensive housing (by which he means more and better houses per person) should take the place of the expansive housing of the past.²⁰ He also points out that in the past every major housing boom in the

United States coincided with an expansion in the population, but this is no longer the case. The scheme of things envisaged by Hansen requires progress towards lower cost housing, something which is, however, no longer possible as a result of high construction costs.

Fluctuations in national income and their role in building fluctuations is a controversial subject, to which some reference has been made already. Governments may adopt different policy attitudes towards residential construction; one is to attempt to use the counter-cyclical movements of house-building in order to stabilise the whole economy; another to secure a "necessary" (or desired) steady growth of housing. Tinbergen favours the first, Hansen and Donnison the second approach.²¹ Cullingworth also favours government enterprise in order to ensure an adequate supply of housing designed to meet socially acceptable standards, and the provision of financial assistance to families unable to pay market prices.²²

Recently economists have shown more interest in the short-run residential construction cycle; they argue that apart from population growth and other exogenous factors like wars, most of the determinants of this cycle are either of a short-run nature or, more properly, related to the short-run business cycle. Income, credit conditions and the price of housing provide some relevant examples.

The main reason for the allegedly counter-cyclical nature of house-building is that the housing sector is said to receive the residual credit from other sectors of the economy, especially fixed business investment and consumer durables, as expenditure on consumer durables moves directly with the general business cycle. If the credit available for consumer durables is directly proportional to the total volume of credit available, the more the economy expands the greater is the credit requirement of this sector and the less is the credit available for housing investment; therefore investment in the housing sector tends to be counter-cyclical.²³ The supply of credit to the consumer sector is

quite elastic and, on the whole, consumer durables follow the general business cycle.

When investors think that interest rates are high and rising, they expect zero or negative capital gains from short-term investments and positive gains from long-term investments, which makes long-term securities more attractive. (The opposite happens during a recession.) Consequently there is a great demand for credit in the form of long-term securities during a boom, and as creditors prefer to supply fixed business investments, there is but little credit left over for investment in house-building. Hence, during periods of tight money the housing sector tends to receive very little credit and in times of easy money more credit will be available to it. The counter-cyclical supply of credit to the house-building sector is thus said to be counter-cyclical largely because of monetary policy. Evans explains the availability of credit for housing investment by the spread between long and short-term interest rates.²⁴

As mentioned above, studies of housing cycles in Western economic literature have singled out the counter-cyclical behaviour of both long-run and short-run residential cycles for special attention. These characteristics result from various phenomena, especially the high cost and durability of houses. In the short-run, the main causes of residential building throughout the cycle are the following: availability of credit, the spread between long-term and short-term interest rates, the fact that building itself represents almost the whole cost to a homeowner (in contrast with industrial buildings), competition for production factors between this and other sectors of the economy, and the fact that the residential building sector usually receives the residual of both credit and production factors not claimed by other economic sectors. In the long run, population growth is the chief determinant of the level of housing investment.

In South Africa, however, the counter-cyclical behaviour of housing is less obvious; with some lags, it almost follows the pattern of the general

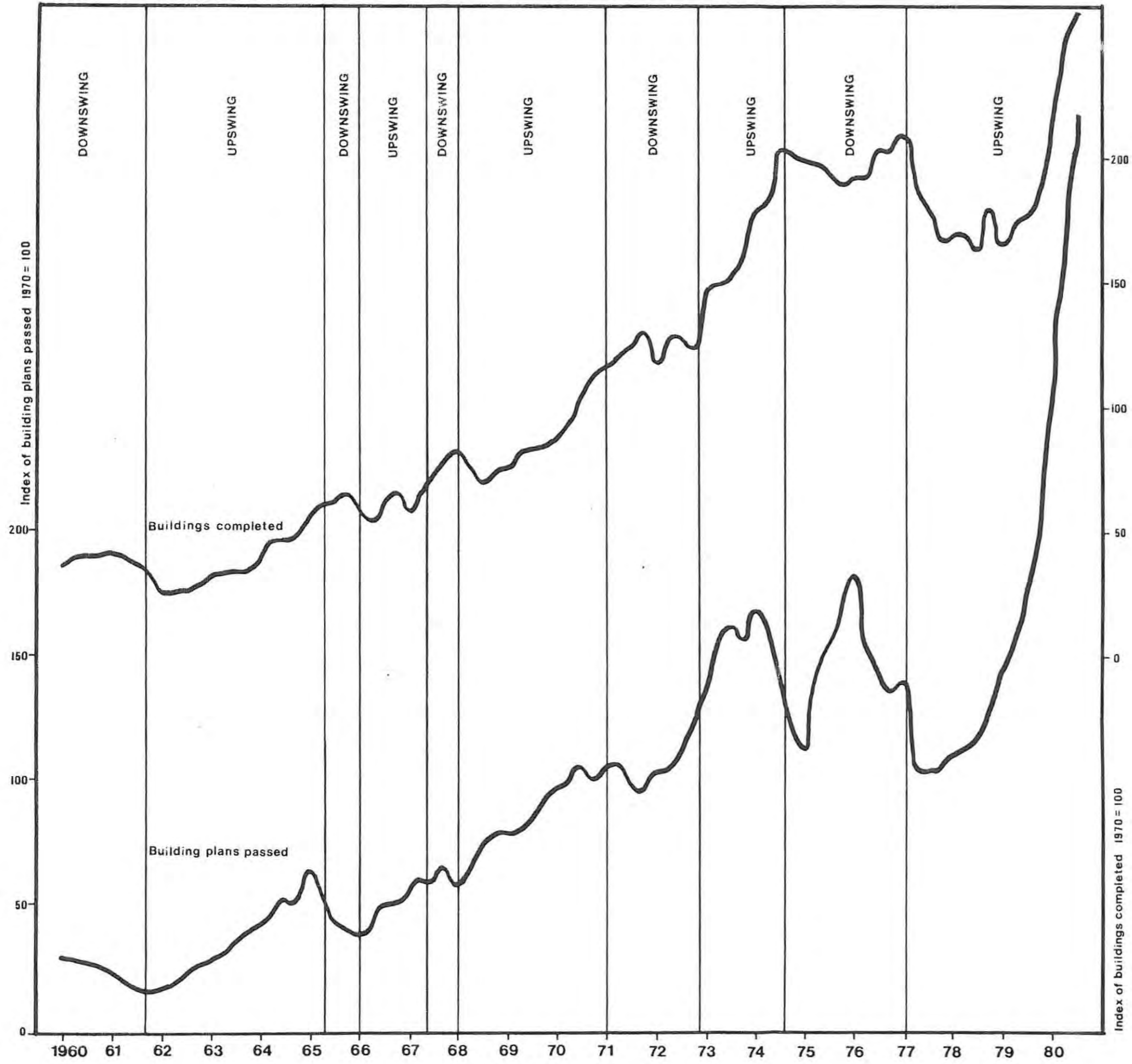
business cycle. At the upper turning point, the housing sector is one of the first to feel the pinch when the authorities tighten credit facilities as a result of a deficit on the balance of payments and inflation. The index of "building plans passed" tends to show a decline at this stage, while the index of "building plans completed" follows it into the downswing phase with a lag of about six to twelve months. This information is set out in Figure 2 for the period 1960 to (September) 1980. (See also Statistical Appendix, Table 1).

These observations may be attributed to a special feature of residential building in South Africa, namely, that the government plays an important role in this sector.

During the period 1964 to 1978, the Department of Community Development and the private sector jointly provided 911 496 housing units in South Africa, of which the Department's (or "Government's") share amounted to 46,4 per cent.²⁵ Apart from its direct role in the housing market, the government also indirectly influences the private sector's investment in housing, operating mainly via credit controls and regulations pertaining to the activities of building societies, which finance some 80 per cent of all homes built by the private sector. Thus, the Standard Bank Review stated that "the contraction of activity in the residential building sector has not been the consequence of lower demand for housing. Rather, liquidity, the life blood of the industry has tightened considerably from all sides."²⁶

Other factors contributing to the behaviour of the housing cycle are land speculation and increase in land costs, and the tendency for building material cost to continue rising after cyclical contraction has set in, which serve to tighten the squeeze on housing investment even further. The results are a slump in building activity and retrenchment of labourers and artisans. When the government later attempts to stimulate the economy out of a state of recession, there is difficulty in getting back former and training new skilled workers.

Figure 2 : Building Activity and the Business Cycle in South Africa 1960 - 80

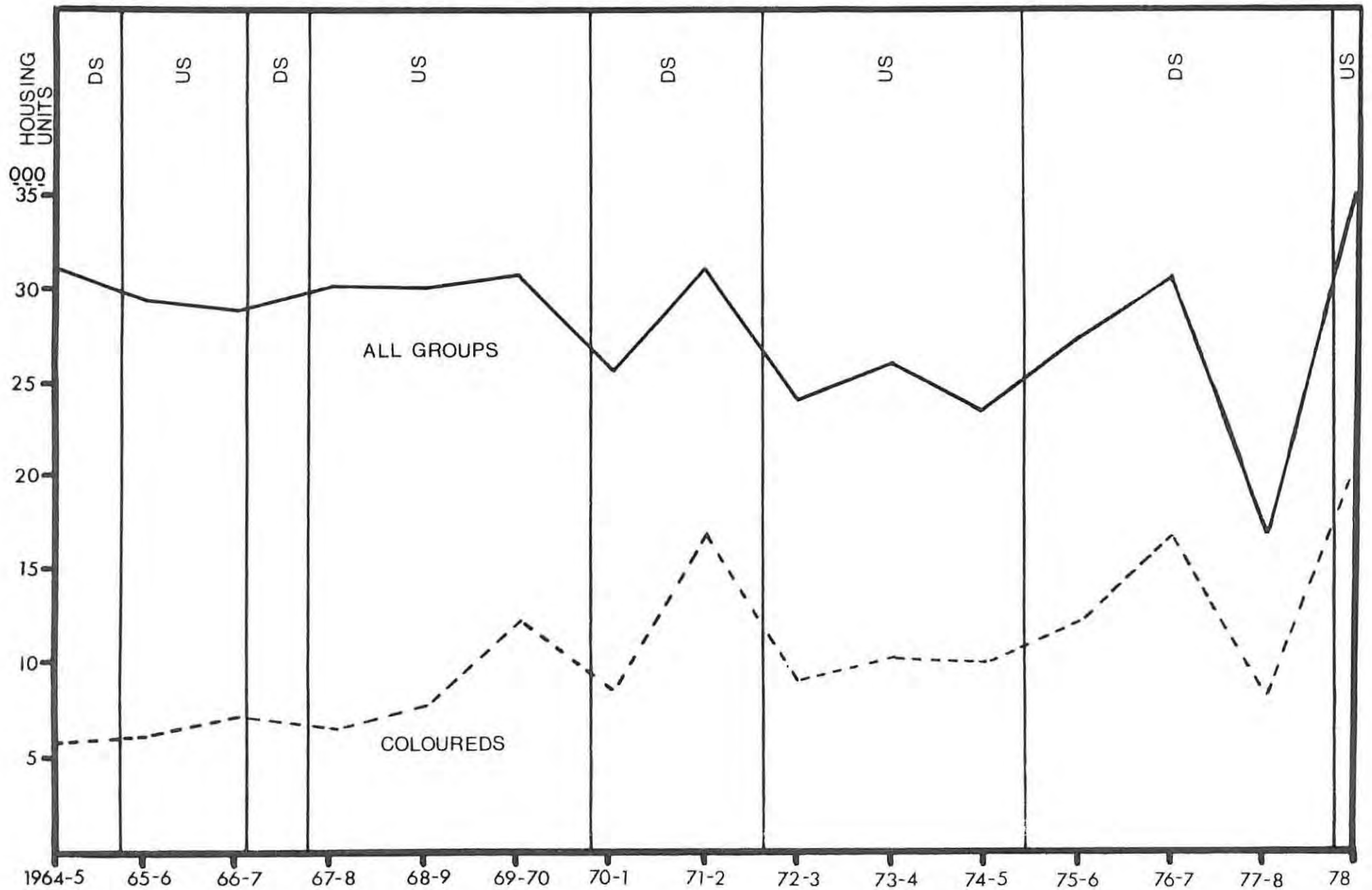


The fluctuations in the cycle here depend mostly on supply factors. (On the demand side, population growth and continued urbanisation should exert an influence both in the short and the long run.)

Thus, housing investment depends mostly on supply factors and on the supply side the government plays the dominant role both in the direct provision of house-building schemes, and by controlling credit and other financial facilities. Whenever the government tightens credit supply, say, as a result of falling gold and other foreign exchange reserves, there will be an inevitable effect on the housing sector, which would seem to be the main reason for the observed nature of its cyclical behaviour.

Figure 3 shows the total number of housing units provided from government funds since the establishment of the Department of Community Development (on 1st April, 1964) until the end of 1978: the solid line depicts the series for all population groups, and the broken line the series for Coloured households. (US = cyclical upswing; DS = cyclical downswing). It is evident that the two series are closely related to one another, but bear very little relation to general business cycle conditions. The Department of Community Development provided or financed some 81% of all new housing to the Coloured population during this period, while the private sector provided 86% of the new houses to the White population group.²⁷ (See also Statistical Appendix, Table 2). Thus it seems reasonable to conclude that the pro-(rather than counter) cyclical behaviour of the building cycle in South Africa, is primarily the result of changing monetary conditions which affect the supply of housing to White families. The supply of housing to Coloured families appears largely unrelated to cyclical fluctuations, and would rather seem to depend on the (political) process of Budget determination by the Government.

Figure 3 : State-supplied Housing in South Africa 1964-78



REFERENCES:

1. ESTEY, J.A. Business Cycles: Their Nature, Cause and Control. Prentice-Hall (New York 1950), pp. 40-43.
2. BURNS, A.F. & MITCHELL, W.C. Measuring Business Cycles. National Bureau of Economic Research (New York 1946), p.3.
3. HANSEN, A.H. Business Cycles and National Income. George Allen & Unwin (London 1968), p.4.
4. FINANCIAL MAIL (Johannesburg, 17th June 1977), p.962.
5. HABERLER, G. Prosperity and Depression. League of Nations (Geneva 1941), p.10.
6. HICKS, J.R. A Contribution to the Theory of the Trade Cycle. Clarendon Press (Oxford 1950), Ch. X.
7. METZLER, L.A. "The Nature and Stability of Inventory Cycles". Review of Economics and Statistics, Vol.23 (1941).
8. SMIT, D.J. & VAN DER WALT, B.E. (i)"Business Cycles in South Africa during the Post-War Period 1946 to 1968." S.A. Reserve Bank Quarterly Bulletin, September 1970, pp.21-46; and (ii)"Business Cycles in South Africa during the Period 1968 to 1972." S.A. Reserve Bank Quarterly Bulletin, June 1973, pp. 33-39.
9. DE KOCK, GERHARD (i) "The Business Cycle in South Africa". S.A. Journal of Economics, Vol. 43 (1975), pp. 1-14; and (ii) The New South African Business Cycle and its Implications for Monetary Policy. (Presidential Address delivered at the Annual General Meeting of the Economic Society of South Africa, Johannesburg, 13th October 1980).
10. SMIT, D.J. & VAN DER WALT, B.E. Op. cit.(i), p.28
11. DE KOCK, GERHARD Op. cit (ii), p.7
12. Ibid., p.12.

13. Ibid., p.13.
14. MATTHEWS, R.C.O. The Trade Cycle. Cambridge University Press (Cambridge 1960), p.98.
15. Ibid.
16. CLARK, J.M. Strategic Factors in Business Cycles. National Bureau of Economic Research (New York 1949), pp. 28 and 33.
17. MATTHEWS, R.C.O. Op. cit., p. 98.
18. TINBERGEN, J. Business Cycles in the United States of America 1919 - 1932. (League of Nations, Geneva 1939), p.163.
19. HANSEN, A.H. Fiscal Policy and Business Cycles. W.W. Norton & Co. (New York 1941), pp. 300-01.
- LUNDBERG, ERIK(ed.) The Business Cycle in the Post-War World. Macmillan (London 1955), p. 302.
20. HANSEN, A.H. Full Recovery or Stagnation? Adam and Charles Black (London 1938), p.300.
21. TINBERGEN, J. & POLAK, J.J. The Dynamics of Business Cycles - A Study in Economic Fluctuations. Routledge and Kegan Paul, (London 1950), pp. 349-50, 163 and 95.
- HANSEN, A.H. Fiscal Policy and Business Cycles, p.57.
- DONNISON, D.V. "The Political Economy of Housing". In NEVITT, A.A. (ed.) Economic Problems of Housing. Macmillan (London 1967) pp.1-11.
22. CULLINGWORTH, J.B. "Housing and the State". In NEVITT, A.A. (ed.): Op. cit., p.27.
23. EVANS, M.K. Macroeconomic Activity. Harper and Row (New York 1969), p.184.
- GUTTENTAG, J.M. "The Short Cycle in Residential Construction". American Economic Review, Vol. 51 (1961), pp.275-98.

24. EVANS, M.K. Op. cit., p.184.
25. Community Development - The South African Scene.
Chris van Rensburg Publications (Johannesburg 1979)
p.99.
26. Standard Bank Review, (Johannesburg, July 1976),
p.7.

CHAPTER II

THE HOUSING MARKET AND REGIONAL ECONOMICS

1. THE HOUSING MARKET

It appeared from the previous chapter that residential house-building activity has been partly responsive and partly unresponsive to general business cycle fluctuations in South Africa. To a very large extent this dichotomy reflects the nature of private and governmental decisions, respectively, which in turn tend to coincide with the housing needs of the White and the Non-White (including the Coloured) population groups.

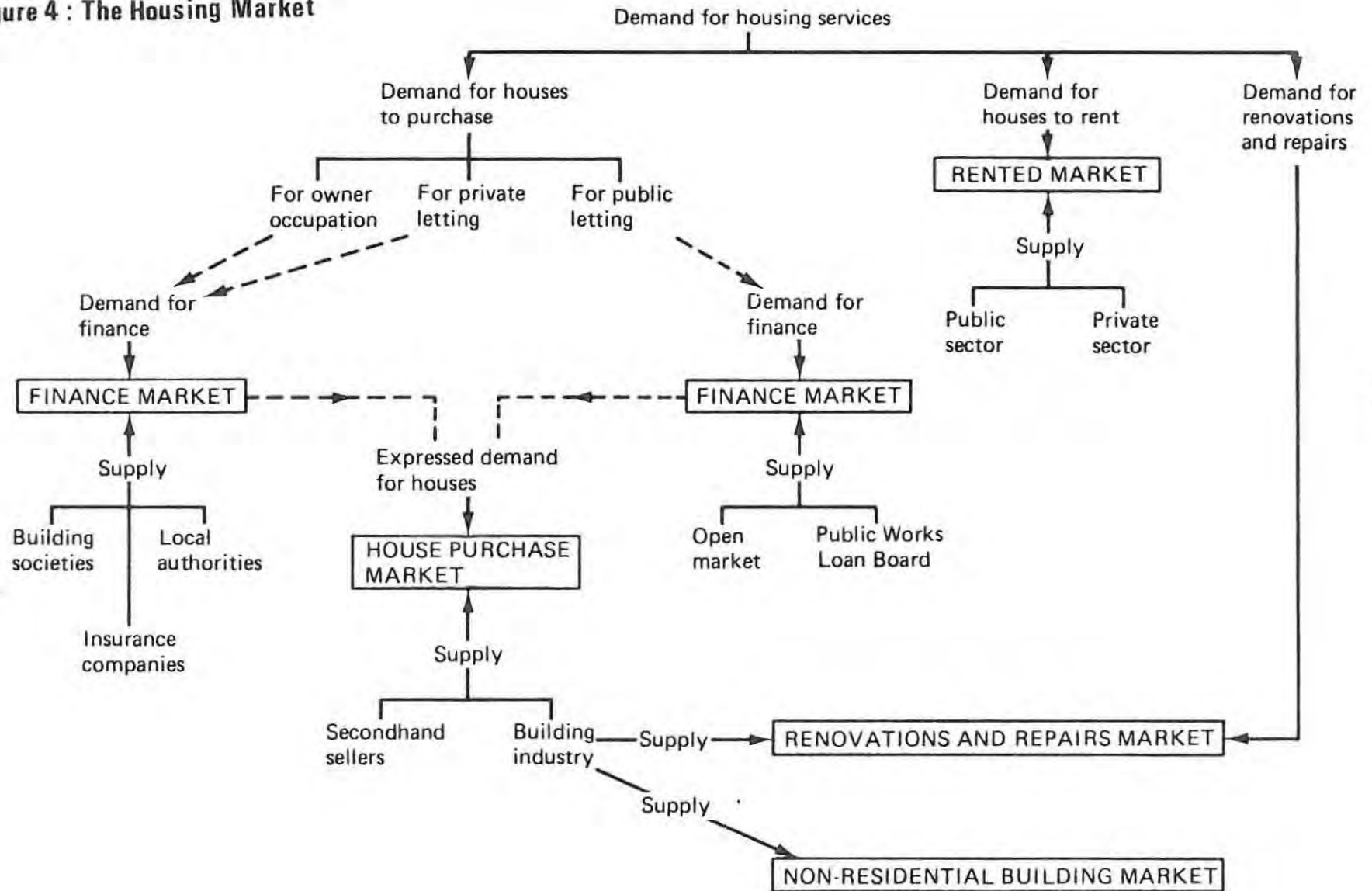
Leaving aside any characteristics peculiar to the South African population composition for the time being, the housing market anywhere is bound to have rather a heterogeneous structure. Before briefly considering the typical features of individual sectors within the aggregate housing market as a whole, it is also necessary to point out two alternative methodological approaches to the analysis of demand and supply in the case of residential housing. One way of looking at the housing market, is to treat it as a stock adjustment model, where the number of households represents demand and the number of houses represents supply. Changes in demand are mainly occasioned by natural population growth and migration, while changes in supply are again mainly derived from new buildings and alterations made to the existing stock of houses. On the whole, stock adjustment tends to be a comparatively slow process. A state of long term equilibrium is approached when the number of households and the number of dwelling units are in approximate equilibrium. Alternatively, the demand for and the supply of housing may be treated as flow concepts. In the simplest terms, demand is then represented by the number of households who, at a specific time, are looking for houses to purchase (or rent), while supply is the flow of houses, at that time, available for sale (or letting). Short term demand and supply may be liable to considerable variations, respectively depending on current economic conditions (boom, slump) and the number of housing

units which come onto the market, not only from new construction but also from the existing stock. Some families are indeed present on both the demand and the supply sides of the market simultaneously: existing homeowners may, for example, wish to purchase a new house and at the same time offer their old house for sale. In principle, it is of course preferable to follow either the stock adjustment or the flow method when analysing the housing market, but in practice such studies often tend to alternate fairly freely between the two methods.

Essentially, the demand for residential housing is a derived demand, i.e., the demand for a durable asset which generates a flow of services. These services may be both numerous and varied, with different households assigning different weights to them, depending on their individual preferences and constraints. Such services would include shelter, comfort, privacy, independence, security, status, as well as the ends of speculation and investment, thus covering a heterogeneous range of needs which include both necessities and luxuries. Thus, housing services do not amount to an invariable package or "mix", but may be purchased in different combinations. Ceteris paribus, owning a house is normally preferred to renting it, seeing that ownership increases the number of services derived from the occupancy of a house. Moreover, once the minimum demand for basic shelter has been satisfied, housing demand ceases to be an inflexible necessity and should therefore become responsive to economic stimuli and change, for example, resulting from economic prosperity and growth. Alternatively put, with changing economic conditions the nature of demand for the various services offered by housing is also likely to shift. The practical implication of this phenomenon would be that in a growing and progressive economy, the demand for housing should sooner or later become income-elastic, i.e., once the basic needs of the population have been met in this respect.

The heterogeneity of the housing market is largely, although not entirely, the result the (above) variable nature of the demand encountered there. Apart from the dichotomy, already encountered, between the private and the government

Figure 4 : The Housing Market



Source: S. Charles: Housing Economics, p.9.

(or public) sectors of the market (where the distinction primarily rests on motivation and the source of supply), it is feasible to distinguish between at least four different components of the residential housing market as a whole. These are: (1) the house purchase market; (2) the market for rented housing; (3) the market for housing renovations and repairs; and (4) the market for housing finance. (There is of course, also a non-residential building market, which falls outside the scope of the present study). The main relations between these various sub-markets are set out in Figure 4.

The links between these individual markets are certainly not without interest within the overall working of the housing market as such, but they will be dealt with briefly in the present context. In the nature of things, sub-markets (1) and (2) are likely to be mutually exclusive on the demand side: the buyers in (1) demand a wider range of services than those in (2). On the supply side however, it is of course quite possible that existing homeowners may prefer to let, rather than sell outright, their houses if and when moving to alternative accommodation themselves. Both sub-markets (1) and (2) are bound, from time to time, to require the renovation and repair services offered by sub-market (3); they should therefore be seen as complementary rather than substitutes. The financial services offered by sub-market (4) (for example, building societies or other similar institutions) are likely to be of more importance in sub-market (1) than in the case of (2), and may also, albeit peripherally, influence sub-market (4). On the whole, there is likely to be more "intermediation" in the house purchase market than elsewhere; apart from financial intermediation, prospective homeowners often also require other specialist services, such as those of estate agents, solicitors, surveyors, etc. The ultimate supply of new housing services of any kind is represented by the building (or construction) industry, with the availability of suitable land acting as a constraint, together with official regulations.

In general terms, the demand for housing services is mainly a function of

the following variables¹: (a) Demographic factors, such as natural population increase, migration, age distribution and household size; (b) Income and wealth; (c) Price of accommodation, including the cost of financing and other intermediation, property rates and taxes, maintenance and servicing costs, as well as future price expectations; (d) Availability and price of substitutes; for example, rented accommodation in the case of prospective homeowners, and vice versa; and (e) Availability of credit, which in turn tends to depend on the existing monetary policy pursued by the government.

The supply of houses² consists principally of two parts: existing houses being resold by their owners and newly built or renovated houses sold by builders and/or property developers. In the private sector of the economy, the supply function would be mainly determined by the following variables: (a) Price of houses, especially expected prices in the case of developers; (b) Cost of houses, including land, construction and financial costs, which again strongly influence the decision to build by contractors and developers; (c) Availability of credit; (d) Availability and profitability of alternative work; and less importantly, (e) Seasonal factors. In the case of the public sector, political and administrative factors predominate, and the relevant supply function would therefore also have to be related to an officially assessed "social need" in this respect, that is the priority rating attached to the supply of housing, admittedly within certain realistic financial constraints. In short, from the government's point of view, housing demand represents a "merit need" which is partly met from private and partly from public sources. Housing in the aggregate has many facets indeed, and does not readily lend itself to simple ex post rationalisation. Maisel has observed in this connection: "Housing programmes have been forged by a combination of politicians, reformers, social workers, engineers, planners, architects, and occasionally economists. In many countries the policies in use have severe internal contradictions. They are frequently not responsive to their expressed goals"³

One of the most basic issues in economics is the efficiency with which resources are allocated between alternative uses. Because of their comparatively high intrinsic cost and long durability, expenditure on houses is bound to have a major impact on society's overall pattern of resource allocation. Moreover, with increased urbanisation, dwelling units not only tend to become more complex, but various external problems may also arise on account of population agglomeration. Given the long durability of houses, ill-informed or ill-conceived building decisions inevitably entrench and aggravate a sub-optimal resource allocation pattern, and thus keep society's standard of living below its potential level. By their very nature as merit goods, the provision of dwelling units is bound to generate some controversy, for there exists no unique test of the total resources which "should" be applied to this end. However, following the simple rule that expenditure presupposes income, i.e., an ability to pay, even public housing policy based on social considerations cannot be realistically separated from the capacity and performance of the economy. (Paraphrasing Milton Friedman, "there is no such thing as a free house".) With the conceivable exception of the most elementary form of shelter, the prerequisite for adequate housing is represented by adequate employment and income opportunities. This implies that housing policies pursued in an economic vacuum are likely to miscarry; as Muth has expressed it: "...urban renewal programmes will do little or nothing to alleviate the slum problem in the long run since they do nothing to alleviate poverty"⁴

By comparison, the working of the private market for housing may superficially seem a fairly straightforward matter. Yet again, in view of the typically high cost and long life of a dwelling unit, inadequate information and imperfect freedom of choice may easily give rise to wasteful resource application. Optimal choice in housing is indeed not always straightforward. The quality of individual dwelling units (and thus the range of services they yield) tends to be variable not only because houses differ in their physical properties, but also because physically identical houses in different areas may not be

perfect or even close substitutes. Houses have a fixed geographic location, and location in space not only affects the services derived from home ownership, but also the price that a house commands in the market.

2. REGIONAL ECONOMICS AND RESIDENTIAL LOCATION

By virtue of the spatial dimension inherent in housing economics, the subject of "residential location" also acquires a definite regional, usually urban, flavour. Regional (and urban) economics has itself produced a vast technical literature, which cannot be reviewed in the present context. Instead, this section attempts to examine some of the links that have been forged between certain aspects of regional economics, on the one hand, and the issue of residential location, on the other.

Whether one does or does not agree with Evans⁵ that economists showed very limited interest in the economics of residential location prior to 1960, the contemporary broad division of regional economics (in its application to housing economics) into a macro-and a micro-approach, seems to have fairly well developed historical roots. Thus, the celebrated work of Von Thünen⁶ sets out to explain how concentric zones of functional land use tend to develop round a city centre: access to markets improves and transport cost is reduced with closer proximity to the city centre, whose attraction is again weakened by the fact that rent and land prices also tend to be higher there, thus raising production and living costs. Although it was Von Thünen's primary objective to explain why different agricultural crops were grown in specific localities, his generalised approach may also be used to explain how economic development causes producers and consumers to settle in certain areas which appear to be optimal to them in terms of rational economic calculation. Albeit remote from contemporary macro- theories in analytical detail, it may not be unduly far-fetched to view Von Thünen's model as their progenitor, in terms of its general economic sense. Likewise, although highly stylised and individualistic in matters of detail, the location theory of Lösch acquires a distinct micro- economic flavour when

specifically related to the choice of residential location. Thus, he argues that people settle in a particular area because they "...achieve their highest utility there."⁷ Utility should, moreover, be understood as a concept which favours the establishment of settled communities, seeing that it "...differs interlocally for individuals by far more than traveling expenses, for it makes an enormous difference whether we were born in a place or have to move there. Migration means relinquishing much that, like friends, can be replaced only after a long time; or never, like one's native place. We cannot take landscape and people with us."⁸

The housing implications of regional economic development and the choice of optimal residential location will now be considered first along macro- and then along micro-economic lines, with some concluding remarks on the subject of "operational" housing models.

(i) The macro-economic approach

Stilwell⁹ has indicated four distinctive theoretical approaches within the field of spatial macro-economics: (1) The interaction between regional growth and factor allocation; (2) Regional growth derived from an export base; (3) The role of investment within a region's growth potential; and (4) Regional development as a process of circular causation. None of these have detailed implications for either the optimal choice of one's place of residence or for housing economics as such. The present outline is therefore essentially confined to (1), as a representative item, with some reference to (4), trying to trace at least the general implications of macro-spatial analysis for the housing market.

Given an initial difference in the economic performance between two regions, their future propensity either to converge or to diverge further will crucially depend on the direction in which labour and capital are likely to flow. Migration therefore plays a key role in this context, which is - like much of economics - characterised by the dichotomy of the Classical ("equilibrating") and Keynesian ("disequilibrating") viewpoints.

Broadly speaking the former approach suggests that interregional deviations in real personal income (or wage) levels tend to be self-correcting in consequence of the migration of labour and capital which they engender. The latter approach again suggests that such deviations will be amplified by labour and capital migration. Converging regional income patterns would also tend to bring different regions into greater conformity in terms of general economic performance, while diverging income patterns would act to increase the economic inequality between regions.

A somewhat simplified Classical view would tend to regard both labour and capital within a country as fully homogeneous and mobile resources, the supply of which should always be capable of responding to changes in demand. Assuming that both factors seek to maximise returns and that there are no obstacles to interregional resource movement, there would be a long term tendency towards equalisation of interregional real factor earnings, in consequence of compensating factor movements. A region with comparatively low real incomes (or with more than "frictionally" unemployed labour) would sooner or later start to lose workers, who would migrate to high-income regions (or regions where employment is available). This process would then affect supply conditions in the respective labour markets so as to raise wages in the area of origin and to depress them in the area of destination. At the same time, capital would tend to flow in the opposite direction, away from higher-paid towards lower-paid labour. This process would also tend to bring the interregional wage levels into closer alignment, through its influence on demand conditions in the respective labour markets. Migration would therefore act as an equilibrating mechanism in a changing economy, tending to reduce the inequalities which might develop between regions.

The following statement by Bertil Ohlin, may be regarded as fairly representative of the Classical viewpoint: "As factors move from regions where

their prices are relatively low to regions where they are dear, their scarcity and therefore their rewards in the former are increased, whereas their prices in the latter fall, unless there is at the same time some counteracting tendency. Interregional mobility tends to make prices more uniform in the regions concerned, just as the interregional movements of commodities were found to do."¹⁰

The persistence of (non-frictional) regional inequalities of real income would then have to be explained in a dynamic setting, in which real incomes change too rapidly for the compensating price adjustments, via supply and demand changes, to become effective in the respective regional labour markets. Yet the belief in ultimate regional convergence, albeit in the "very" long run, would appear to be deeply engrained in the Classical viewpoint: "Differences of the latter sort may last a long time if new economic changes create them as quickly as the labour flow extinguishes them."¹¹

To show how the Keynesian viewpoint leads to a theory of regional divergence, rather than convergence, it will again be convenient to assume two regions, one with comparatively low real incomes (or with unemployed labour) and the other with comparatively high real incomes (or with employment opportunity). As labour starts to leave the low-income (or depressed) region to enter into employment in the high-income (or prosperous) region, the first effects of this migratory process will be a reduction in the demand for final output in the region of origin and an increase in such demand in the region of destination. Consequently, a negative employment-output multiplier process is set off in the depressed region, while the opposite occurs in the prosperous region. In Keynesian dynamics, the price (wage) adjustments wrought by the respective labour markets are too slow to compensate for the interregional differences in real income (or employment) which tend to become cumulative with the passage of time. Consequently there is no tendency towards an interregional equalisation of real wage levels, not even in the "very" long run. On the contrary, initial

regional imbalances tend to become greater in the course of time.

The fundamental structural difference between the Classical (equilibrium) and Keynesian (disequilibrium) theories is summarised by Axel Leijonhufvud as follows: "In general equilibrium models, prices are the only endogenous variable which enter as arguments into the demand and supply functions of individual households. Tastes and initial resource endowments are parametric. In "Keynesian" flow models the corresponding arguments are real income and the interest rate. Of these, real income is a measure of quantity, not of price. On a highly abstract level, the fundamental distinction between general equilibrium and Keynesian models lies in the appearance of this quantity variable in the excess demand relations of the latter. The difference is due to the assumptions made about the adjustment behaviour of the two systems. In the short run, the "Classical" system adjusts to changes in money expenditures by means of price-level movements; the Keynesian adjusts primarily by way of real income movements."¹²

A recent interpretation of the Keynesian approach is that disequilibrium may fail to eliminate itself because of the deficiency of available information, and the cost and time lag involved in securing better information. Low regional wages (or unemployment) may thus not disappear because the workers concerned do not at any given moment possess perfect and costless information about alternative income and job opportunities elsewhere. Disturbances which are dismissed as "frictional" in the Classical equilibrium approach may thus grow considerable in scope and become enduring in nature.

Not only does the Keynesian system respond to initial disturbances (such as regional real income divergencies) by means of short run quantity rather than price-level adjustments, but it also amplifies and entrenches these disturbances in the long run through the operation of the multiplier process. In brief, "the revolutionary impact of Keynesian Economics on contemporary thought

stemmed in the main ... from Keynes' reversal of the conventional (i.e. Classical) ranking in price and quantity velocities."¹³

Furthermore, according to the Keynesian viewpoint there would be no compensating movement of capital in a direction opposite to the interregional labour migration. As capital is not concerned with labour cost alone, but rather more with existing and potential conditions of yield, both resources would tend to flow in the same direction, that is, away from the depressed towards the prosperous region. A lack of capital would generally work against industrial diversification within the depressed region, by preventing the movement of local agricultural labour into local non-agricultural occupations, where it might have been utilised more productively and earned a higher remuneration.

The Keynesian disequilibrium thesis is reinforced by the relaxation of the (Classical) assumption of the homogeneity of labour. Out-migration would then be a positively selective process, in the sense that the first workers to leave the region would be those with the best prospects of obtaining employment (or better-paid employment) elsewhere. That is, workers with skills would leave, while those without skills would remain behind.¹⁴ As there is bound to be some complementarity in the employment of skilled and unskilled workers, regional unemployment of the latter might well develop (or increase). Consequently the occupational structure of the (depressed) place of origin would tend to become lopsided as it continued to lose more and more of its skilled workers. The first impact of a regional economic divergence would therefore be positively selected migration which would in turn tend to create unemployment (or further unemployment) at the place of origin, rather than to absorb the unemployed (or disguised unemployed) at the place of destination.¹⁵ A corollary of these disequilibrium-amplifying properties of selective migration would again be that capital is repelled from the depressed and attracted to the prosperous region.

Certain qualitative changes would presumably also come into operation in

the prosperous areas, thus intensifying the development of regional inequality and imbalance. Firms situated in growth regions would benefit from economies of large-scale production, which may induce shifts in their marginal productivity schedules, sufficient to compensate for their downward slope - thus preventing real wages from falling. Moreover, prosperous regions would not only tend to develop a diversified technological, industrial and occupational mix favouring further growth, but also a general social and cultural environment which may well attract further migrants from regions lacking similar facilities.¹⁶

The postulated tendency towards regional disequilibrium in a changing economy has been raised by Gunnar Myrdal to the status of a general principle of "Circular Causation", with (positive) "spread-effects" and (negative) "backwash-effects" in prosperous and backward regions, respectively, the combined effects of which are to increase regional imbalances and inequalities. Such internal inequalities are also regarded to be of a greater order in the underdeveloped than in the highly developed countries.¹⁷

A rather different approach to the regionally equilibrating or disequilibrating consequences of migration has been adopted by Sjaastad, whose analysis is cast in the general framework of the Pigovian theory of resource allocation, where the market mechanism creates "external" costs and benefits which prevent the spontaneous attainment of a general equilibrium. That is, migratory flows would be insufficient to correct emerging regional income disparities fully, if the private costs of migration exceeded its social costs and/or if the private returns of migration fell short of its social returns.¹⁸ Such a theory would not lead to the conclusion of cumulatively increasing regional imbalances, but it would explain why the equilibrating effects of migration within a country have been less than complete.

Similarly, it may be argued that the regionally equilibrating effects of migration, as perceived by the Classical viewpoint, are not necessarily

invalid but that insufficient attention has been paid to the "frictional" elements present in the process. In other words, intervening obstacles, such as transportation difficulties and lack of adequate information, may render both labour and capital less than fully mobile and thus prevent the (further) narrowing of interregional income differentials.

In order to try to predict the actual flow of migrants between two regions, various "gravity" (and "probability") models have been designed. Expressed generally, they tend to assume the following form:¹⁹

$$M_{ij} = P_j / d_{ij} \cdot f(Z_i)$$

Where M_{ij} = volume of migration to destination i from origin j ; $f(Z_i)$ = some function of Z_i , where Z_i measures the attractive force of destination i ;

P_j = population at origin j ; and d_{ij} = distance between origin j and destination i .

Although gravity models have been subjected to extensive empirical testing, there remain obvious difficulties in the identification, quantification and weighting of the relevant variables, especially with regard to the forces of attraction at the place of destination, or the forces of repulsion at the place of origin of a migratory flow. Further complications arise from attempted disaggregations of such macro-models; for example, certain forces may well have different subjective meanings to different individuals. Also, the role of information is often absent in these models: information is not only a necessary condition for migration to take place at all, but the information issue as such has a number of ramifications with a bearing on the decision to migrate.

On the surface of things, the implications of interregional resource re-allocation for the housing market may appear fairly straightforward: Viewing the national housing market as a whole, an excess demand for accommodation would arise in the region gaining migrants, while excess supply would develop in that region which experiences a net out-migration. On the Classical viewpoint, equilibrium should eventually be restored in the national housing market too, while initial discrepancies would be aggravated on the Keynesian viewpoint.

With regard to the Classical approach, certain serious reservations should, however, be noted at this stage. For one thing, stock adjustment in the housing market tends to be a slow process and, in all realism, the housing stock cannot flexibly adjust itself to all changes of direction in population movements. Also, given the social significance of housing, official regulations may make such potential adjustment even more difficult: Abandoned houses may be condemned and demolished (thus reducing excess supply in the region losing people), while minimum standards and shortages in the building industry, as well as financial constraints, may retard the construction of new houses (thus preventing a reduction in excess demand in the region gaining people). Moreover, if the latter region experiences a rapid increase in building and housing costs, which seems a likely proposition, then the authorities may institute rent control, which would tend to perpetuate a state of excess demand. Even in the absence of such an "official" imperfection, the housing market does not normally work under conditions of perfect competition, simply because dwelling units are "bulky", in the sense that they cannot be purchased in infinitely divisible units to suit all individual tastes. If "self-help" schemes, including squatting, are discouraged or even prohibited by the authorities, then the indivisibilities and comparatively highly priced dwelling units typical of the housing market would tend to perpetuate and amplify existing shortages.

Apart from these reservations, both the Classical and the Keynesian approaches ignore the problem of the "third region", which may be of decisive importance in a country with a comparatively large rural population. Assume that a small urban region B has been losing people to a large metropolitan region A. If, however, region B is itself simultaneously gaining people from a rural area C, then the expected housing surplus may not arise there at all. Indeed, vacant and low-cost houses in B may serve to attract such rural migrants to the region, irrespective of its prevailing employment and income

opportunities. Thus region B may be gaining and losing people at the same time; however, given the selectiveness of migration, the out-migrants which it loses to A are likely to be more productive and "employable" than those which it gains from C. The net result is a housing shortage (in the sense of excess demand) in region A, and overcrowding (largely unrelated to economic factors) in region B. In other words, a national housing shortage (rather than equilibrium) may well result from interregional migration; the shortage in A would be understood to exist in the accepted economic sense, while that in B would be interpreted in a largely social sense. It could be argued, in principle, that at least some vacant housing should arise in the rural area C. In practice, such an expectation tends to lack realism against the background of a rural setting typical of third-world countries and also under South African circumstances. The accommodation vacated under these conditions is often of a rudimentary nature, likely to be demolished or destroyed once abandoned. Moreover, in view of the comparatively extended family system that often prevails in such rural areas, migration to adjacent towns (region B) may serve to relieve some existing pressure of human members on limited housing, but is very unlikely to create an excess supply of habitable dwelling units.

Thus it seems permissible to draw the general conclusion that regional economic discrepancies and the reallocation of economic resources which they engender, are likely to aggravate housing problems until a point in time when economic development has permeated all parts of the country.

(ii) The micro-economic approach

At the micro-economic level, the spatial or locational element has long been recognised as an important part of the theory of the firm.²⁰ In selecting an optimal site for its activity, a firm must consider the location of its input sources as well as that of the market(s) for its output. Specific variables to be considered here include the costs of labour, water, power and transport,

as well as economies or diseconomies external to the firm itself. Although the eventually chosen site may appear optimal (eg. in terms of profit or revenue maximisation) from the firm's own viewpoint, it may prove to be sub-optimal in the overall social context. This would, for instance, be the case when a particular locational decision serves to establish a state of imperfect competition, or disregards the creation of negative externalities, i.e., social costs not reflected in the firm's private costs. Both on a theoretical and a practical level, the firm has to trade off certain factors (say, the distance from raw materials) against others (say, the distance from its markets). As the locational decision involves a long term commitment of capital resources which cannot normally be revoked, the spatial element complicates optimal decision-taking in a number of ways: for example, a site that was once optimal may cease to be so with the passage of time, as a result of new developments beyond the control of the firm itself, like a population shift or discovery of a new raw material source.

Turning to the household, the purchase of a home is the most important financial decision that most people ever make. In principle, it may be assumed that the household would follow the policy of maximising utility from its given income along generally accepted lines.²¹ It would thus endeavour to maximise a utility function

$$U = U(q_1, q_2, \dots, q_n)$$

subject to

$$q_1 p_1 + q_2 p_2 + \dots + q_n p_n = Y$$

where 1, 2, ..., n represent the range of goods and services consumed; q and p their respective quantities and prices; and Y household income. The assumption that all the goods and services can be purchased in perfectly divisible units, yields the familiar equilibrium condition

$$\frac{MU_1}{p_1} = \frac{MU_2}{p_2} = \dots = \frac{MU_n}{p_n} = MU_y$$

where $MU_i = \frac{\partial U}{\partial q_i}$ ($i = 1, 2, \dots, n$), and MU_y is the (constant) marginal utility of income. The demand for a specific good i (eg. housing) would then be a function of the prices of all goods purchased and the income of the household:

$$q_i = q_i(p_1, p_2, \dots, p_n; Y).$$

However, when these criteria are applied to the housing market, a large number of qualifications, which may prevent the household from achieving theoretical optimality, must be taken into account. For a start, income is a more telling constraint here than in the case of most other consumables. As most households are not able to pay the purchase price of a house from current income or even accumulated savings, the arrangements for housing finance significantly influence the decision to buy a home. Such arrangements usually pertain to the size of the initially required deposit, a series of periodic repayments, and the period over which the loan is repayable. As with other "bulky" goods, housing indivisibilities invariably tend to complicate utility maximisation, at least according to the formulation set out above. Housing is not an independent commodity, but rather related to a number of goods and services, such as furniture (complement) and, say, a private motor car (substitute). The price of a house and of housing services are also bound to be influenced by government intervention in the market by means of taxes and subsidies. Official zoning regulations, rent control and minimum standards may also preclude the choice of a home in the optimal residential location. On account of population agglomeration, both positive and negative externalities are likely to arise, which were often not taken into account when the home was originally purchased. Market imperfections, heterogeneity and the relative longevity of houses may cause wide fluctuations in their prices, in accordance with the well known "Cobweb theorem".²² Such fluctuations also occur because houses are immovable and their stock adjusts slowly to changes in demand and price. A lack of adequate information also impedes optimal decision-taking by the household. Admittedly, not all

these constraints and imperfections are limited to the housing market, but they are likely to be of special significance there for a number of reasons, including the relatively high cost and long life of most dwelling units. Finally, by virtue of their nature as merit goods, housing and housing services are provided by both the private and public sectors of the economy. Land itself is capable of alternative application and, according to Stilwell, "... given the interdependence between residential and industrial location and the non-optimality of industrial location, there will be consistent tendencies towards non-optimality in residential location."²³

Choice-theoretical models of optimal residential location may be divided into two main categories, the most prominent being (1) the access/space "trade-off" and (2) the "behavioural" household location models. (The former is usually associated with the name of William Alonso and the latter with that of H.W. Richardson).

The most elementary version of the former is known as the "journey to work" theory. It is often assumed that a particular urban area has a single city centre, the Central Business District (CBD), with workers and shoppers regularly commuting between the CBD and their homes. If transport is the only cost they have to meet, typical workers/consumers will tend to settle progressively closer to the CBD. Consequently the price of land rises near the CBD and falls in the outlying areas, until the total value of land plus transport costs is equal in all localities. This basically simple equilibrium model has been developed to assume more sophisticated forms and also used to determine a functional boundary between the CBD and residential land.²⁴ Differential land prices may also lead to a concentration of lower-income families near the CBD and of higher-income families in the more distant suburbs. The former typically consume less land and avoid high transport costs by having easy access to their places of work and shopping, while the latter prefer more space, accepting the resulting high transport costs; alternatively, they sacrifice accessibility

but also avoid overcrowding. However, empirical studies have produced examples of house (rather than land) prices that both increase and decrease with distance from the CBD. The basic explanation of this dualistic phenomenon is evidently vested in the fact that housing services tend to be indivisible and households do not consume the same amount of space in different parts of the city. "Thus the suburban dweller must purchase a large amount of surplus space in order to gain a roof over his head. This space, although perhaps cheaper per square foot than in the city proper, will in toto cost more than the flats or terraced housing more typically found in the inner city."²⁵ In view of the heterogeneous nature of the housing market set out above, it is not surprising that attempts at generalisation fail to yield unique results.

Behavioural models of household location, in turn, relate housing preferences to both housing and environmental conditions. Thus relatively wealthy families may prefer to live in the suburbs on account of the availability of modern dwelling units of high quality, absence of congestion and noise, and a generally clean and pleasant neighbourhood. Moreover, the CBD is dominated by non-residential occupation, and land suitable for private housing tends to be more readily available in the suburbs. Richardson summarises the gist of the "behavioural" approach as follows: "Having determined the price range they can afford, households then look around at houses within this range which satisfy certain predetermined requirements (for example the type of house, the number of bedrooms, the existence of garage and garden, a preferred area, etc.). The area of search may be quite large, and will vary in size according to the available stock of houses on the market, personal preferences based on casual observation of localities, areas in which work colleagues live, areas containing or with access to good schools, etc. This area will also vary between households according to their flexibility, knowledge of the region, point of origin of the house search and the houses available near it, and many other factors. In most cases, journey to work costs will not have much of an influence

provided that the area of search falls within commuting limits."²⁶ The income, wealth and credit rating of the household not only determine the quality of the house that it will purchase, but also serve as a general reflection of its social status and preferences.

Perhaps a third type of approach to the issue of residential location, as distinct from the macro- and micro-economic varieties outlined in this chapter, is represented by so-called "operational" models. The protagonists of this approach criticise macro-models because of their "lack of theory" and limited predictive powers, and micro-models on account of "operational difficulties."²⁷ Yet, relying on the notion of "social physics", it is not obvious how they differ functionally from the "gravity" or "operational" models briefly discussed on page 35 above. Such models are much favoured by town planners and are used to predict traffic flows, residential and industrial development, etc. usually on the basis of the interrelationships between population and employment.²⁸ Their efficacy would seem to essentially depend on the quantity and quality of available statistics²⁹ and, in spite of the critical attitude that their users adopt towards more conventional economic models, they seem to possess no special powers of explanation in the present context.

III. HOUSING AS A MERIT WANT IN SOUTH AFRICA

Residential investment claims a significant share of society's economic resources. During the period 1975-79, Gross Domestic Fixed Investment in South Africa (at constant 1975 prices) amounted to R37 652 million, of which investment in residential buildings amounted to 11,0 per cent, or 3,1 per cent of (real) Gross National Product.³⁰ This figure may not appear particularly high by international comparison, being of the same approximate order as that for Britain and about half of the corresponding Japanese figure.³¹ The share of the South African Public Authorities in total residential investment amounted to 25 per cent, the shares of the Public Corporations and private business

enterprise being 7 and 68 per cent, respectively. The comparatively high figure for the Public Authorities reflects the fact that "...home-ownership has been the declared policy of the State for many years" in South Africa.³²

Public interest in home ownership and residential construction is derived from the social significance of housing as a merit want. Following conventional analysis, the total output of the economy is designed to meet the trinity of private, social and merit wants. The first of these is normally catered for by the market system, the second through the State Budget, while merit wants fall into an intermediate category. Musgrave has described merit wants in the following terms: "Such wants are met by services subject to the exclusion principle and are satisfied by the market within the limits of effective demand. They become public wants if considered so meritorious that their satisfaction is provided for through the public budget, over and above what is provided for through the market and paid for by private buyers.....Public services aimed at the satisfaction of merit wants include such items as publicly furnished school luncheons, subsidized low-cost housing, and free education."³³

This general definition of merit wants agrees closely with the view of the South African government's housing organ, the Department of Community Development, on the subject of housing: "The financing of national housing by the central government is not only an investment of money which flows back with interest, but also an investment in good human relations, national harmony and peace....State investment in housing still remains unavoidable because....higher interest rates for capital expenditure on housing place low-cost housing beyond the reach of the very poor in the community....Any effort to curtail State participation in the provision of housing at this time would be unwise and would play directly into the hands of our enemies because it would inevitably mean that the present rate of housing provision could not be maintained, and the result would be a crisis which would not be easily over-

come. The private sector is just not equipped at present, although it may be later, to play a significantly larger part in the provision of low return, low-cost housing, and if State investment and participation should be curtailed at this stage the inevitable result would be that housing provision for the poor did not receive sufficient attention from anybody, with the resultant development of shanty areas. Low-cost housing is not profitable and must in addition be subsidised to a considerable extent."³⁴

A number of salient features of official policy towards housing in South Africa emerge from the above quotation. Apart from stressing the social significance of home ownership, the Department of Community Development clearly takes cognisance of the heterogeneous, or stratified, nature of the housing market as a whole, against the background of the rather unequal pattern of income distribution in South Africa. Thus the "top" section of the market, where the higher income groups are found, is not regarded as a proper object of State assistance, but should be catered for by the private sector. This does, of course, not mean that many homeowners in the higher income brackets are "cash customers", but rather that financial intermediation here is left to private institutions, mostly building societies.

In discussions on housing, it is sometimes customary to distinguish between the "need" and the "want" or "effective demand" for dwelling units, a distinction which has not been explicitly made in this study so far. Cullingworth views the link between these two concepts in the following way: "The high capital cost (of houses) means that the need for houses can be transformed into demand only if there is some mechanism for long-term credit. Thus a crucial factor in the housing market is the ability of building societies and other building institutions to attract savings."³⁵ However, even in the top stratum of the housing market in South Africa, housing services are not in all circumstances regarded or treated as a purely private want; several categories of employees do qualify for subsidies intended to lower the cost of long term

housing finance, even though they cannot in any way be regarded as economically deprived families. Interestingly enough, the Fouché Commission which investigated the high cost of housing in the upper stratum of the market, found that such subsidies miss their expressed purpose of reducing the cost of living of the households concerned: "The Commission is satisfied, therefore, that these subsidies, irrespective of who pays them, have been of the most important single factors contributing towards the development of expensive housing costs, because the subsidy enables everyone to pay more than their income justifies, in other words, people are able to afford a home that is too expensive by using the State's money or their employer's money."³⁶ In analytical terms, the Commission therefore views such subsidies to higher income groups as essentially serving to raise their disposable income, thus increasing their demand for housing (shifting the demand curve to the right), which in turn raises the cost of housing in this segment of the market. The practical conclusion, therefore, seems to be that buyers in the upper stratum of the housing market should not be subsidised at all, and that housing services at this level should be seen as a pure private want, where the buyers themselves should pay the full cost of housing in the market. (Incidentally, a further element of subsidy may be available to all users of building society finance, in the sense that building societies are liable to less onerous official financial requirements than, for example, commercial banks.)

The relevant target group, where housing services are deemed to represent a merit want proper, obviously consists of families in the lower income brackets. However, within this group too, incomes tend to vary considerably, with the result that the Department's provision of low-cost housing is undertaken on a graded basis. All buyers in this market stratum benefit from the policy of the Department to cover its costs rather than to show a profit. Moreover, in the case of the lowest income groups (the "poor" and the "very poor") the cost of housing is also subsidised, i.e., the Department actually

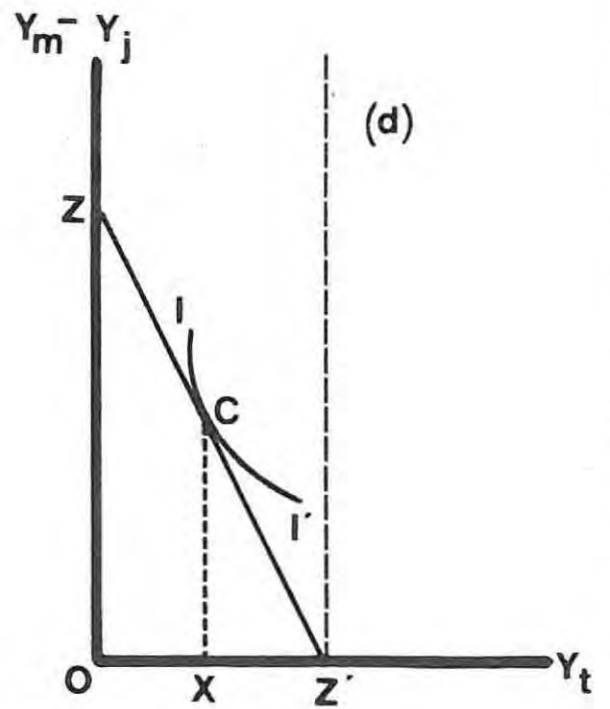
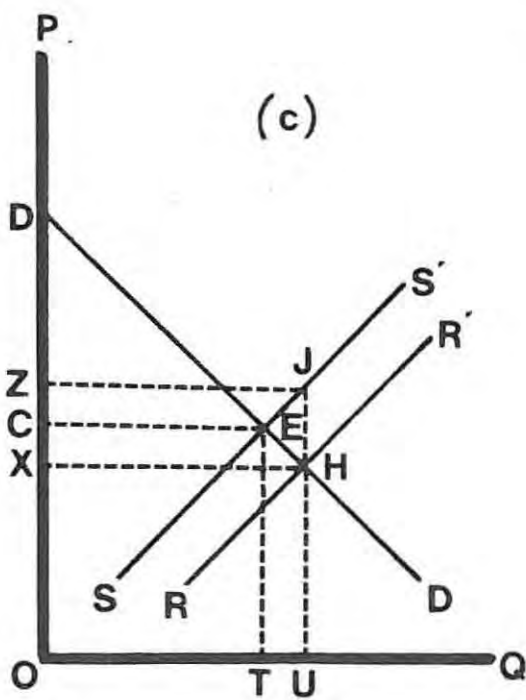
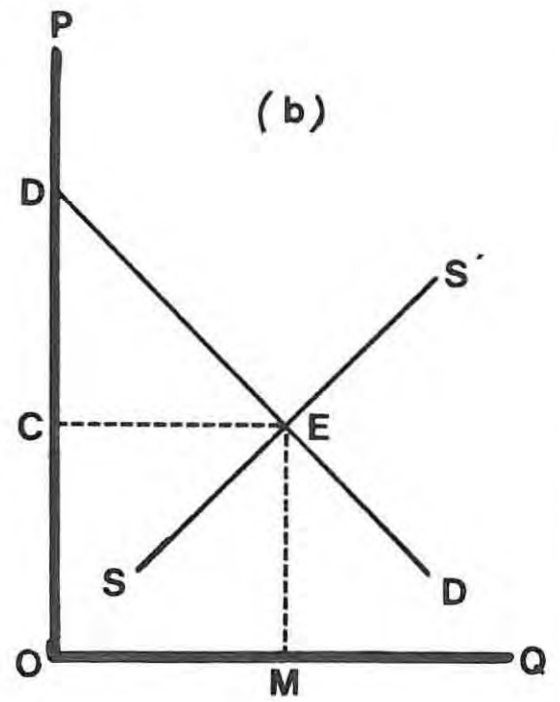
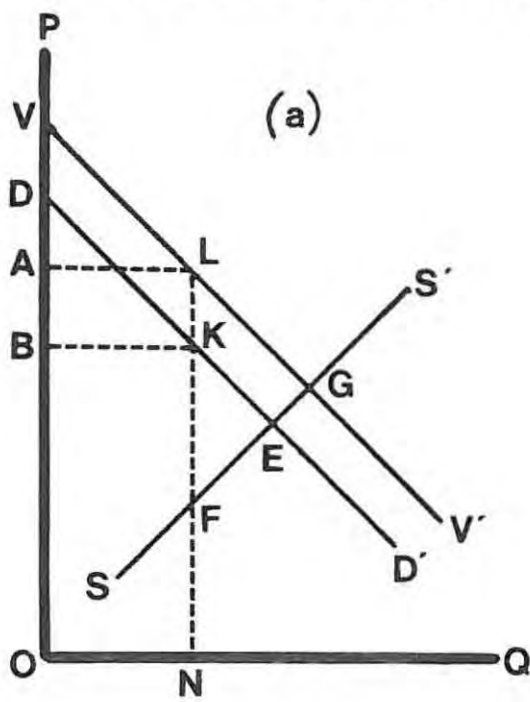
makes a financial loss to be covered by budgetary provision. The maximum cost of a house (including land) for which official assistance was available was set at R14 000 in 1980, the average price per dwelling unit being R4000. The maximum income of a person whose family qualified for assisted housing was R540 per month in 1980; the benefits available varied between three specified income groups as follows:

<u>Income per month</u>	<u>Interest on loan</u>	<u>Period of repayment</u>
(i) R150	1,00%	40 years
(ii) R151-R350	3,50%	30 years
(iii) R351-R540	9,25%	30 years

Groups (i) and (ii) are taken to represent the recipients of "sub-economic" and group (iii) of "economic" housing; the latter also applies to persons whose income was less than R150 per month and in whose case monthly rentals did not exceed R7,50.³⁷

According to the Department of Community Development, at least implicitly, a subsidy on low-cost housing, in contrast with the case of high-cost housing discussed above, does indeed reduce the cost of living of the intended beneficiaries, thus successfully serving the ends of merit wants. In analytical terms, these subsidies lower the supply price of housing by their full amount, thus shifting the supply curve to the right. The essential welfare effect of subsidised housing is illustrated in Figure 5 below.

Figure 5: Housing Policy Models



In Figure 5, panel (a) depicts conditions in the top (income) stratum of the house market; panel (b) represents State-supplied housing at cost price, but unsubsidised; panel (c) shows the market for State-subsidised low-cost housing; and panel (d) indicates the voluntary transfer on income which may occur when consumers' utility functions are interdependent.

Let DD' and SS', in Panel (a) represent demand and supply respectively, the latter being determined by the marginal cost of housing. In a competitive market, equilibrium would have been at E, but in an imperfect market where producers aim at maximising profit, equilibrium is likely to be at a point such as F (say, where the marginal revenue and the marginal cost of the supplier(s) are equal). As a result, ON housing units would be produced at unit price OB. The resulting consumers' surplus would then be DKB. Should a subsidy be paid to the buyers in this market segment, then - according to the interpretation of the Department of Community Development given above - their disposable income would increase and shift the demand curve to, say, VV'. Assuming an inelastic supply of housing units, equilibrium would shift to point L (and not to G, as would have been the case under free competition), raising the unit cost to OA, with no change in the consumers' surplus, since VLA = DKB. Hence, in this, admittedly "extreme", case, there is no increase in the number of housing units or the welfare of their owners, but rather an increase in housing costs, as a result of the subsidy.

In panel (b) the market "simulates" a condition of perfect competition, seeing that supply, by the government, takes place in accordance with marginal cost. Hence, OM units are supplied at price OC, and there is a comparatively large consumers' surplus DEC. Clearly this is the optimal situation from the viewpoint of resource allocation and economic welfare.

In panel (c), supply is initially represented by SS'; the resulting number of houses would then be OT at unit price OC, given by equilibrium point E. This is the market segment pertaining to the "very poor", and we

assume that the government therefore subsidises housing by $JH(=ZX)$ per unit, as a result of which the supply function shifts to RR' . New equilibrium is thus established at H ; the quantity of houses increases by TU and their unit cost falls by CX . (With perfectly elastic supply, the unit price would have fallen by the full amount of the subsidy). There is an increase in consumers' surplus equal to $CEHX$, which must, however, be set against the presumed tax burden of the subsidy equal to $ZXHJ$. (Again, with perfectly elastic supply, the difference between these two amounts would have been relatively minute). Thus, the welfare gained by lower income groups should be compared with the welfare loss suffered by the higher income groups, assuming a progressive system of taxation and, probably, tax exemption of very low incomes. Of decisive importance here would naturally be the number of beneficiaries concerned and the number of affected taxpayers. In the absence of such information, it could be generally argued that the tax-subsidy scheme may be justified on the assumption of declining marginal utility of income, and a resulting increase in total (cardinal) utility for society as a whole.

However, according to the already cited viewpoint of the Department of Community Development, it is contended that society as a whole does intrinsically benefit from an increase in the living standards of its poorest members. In other words, the welfare (utility) of the higher income groups is not only related to their own incomes, but also to the incomes (and hence utility or welfare) of the lower income groups.³⁸ Given such an interdependence between the utility functions of different income groups, we may proceed to analyse an optimal transfer of (real) income by means of panel (d). Here the vertical axis measures the initial difference between the incomes of the "rich" and the "poor" ($Y_m - Y_j$), while the horizontal axis measures the actual amount of income voluntarily transferred from the former to the latter (Y_t).³⁹ The terms on which the "rich" are able to exchange their own income for increments in the income of the "poor" is given by the slope of line ZZ' ($= -2$); that is,

for every unit of income transferred (Y_t) the income differential ($Y_m - Y_j$) falls by two units. II' is one of the indifference curves of the "rich", which indicates the terms on which they are willing to subsidise consumption by the "poor" at their own expense; the resulting tangency point C thus indicates that the actual amount of transfer voluntarily agreed to would be OX. (If OZ' were to be transferred, incomes would be equalised). The transfer would be Pareto optimal, in the sense that the welfare of the "poor" has obviously increased (as in panel (c)), while the welfare of the "rich" has not decreased. Utility interdependence may, admittedly, not be motivated by pure charity, but rather by the fear of social unrest, as the Community Development viewpoint would appear to imply; the crux of the matter is that a cogent case can indeed be argued for housing subsidies in terms of economic efficiency. Thus, Hochman and Rodgers conclude that "In the presence of such interdependence, Pareto optimality may not only be consistent with redistribution, but may require it."⁴⁰ The empirical means of determining the optimal size of income redistribution are, of course, anything but obvious. The uncertainty which surrounds the state of sub-economic housing in South Africa, presumably reflects at least some of the practical difficulties in determining the optimal level of income transfers in operational terms.

The Department of Community Development estimated in 1980 that the annual future demand for (all) housing in South Africa would amount to some 90 400 dwelling units, of which about 61 000 units would fall into the potential category of state-assisted housing. It was, moreover, estimated that the "absolutely essential" component of this demand plus the existing housing backlog would amount to at least 40 000 low-cost houses per annum. The existing backlog itself was also put at approximately 40 000 dwelling units in 1980, in the sense that they had already been approved, but lacked finance.⁴¹

It has been argued in this chapter (eg. on pages 27 and 36-37) that the provision of housing cannot be separated from general economic conditions in a meaningful way. The existence of a housing "shortage" or "backlog" indicates insufficient effective demand, that is, demand supported by adequate purchasing power. Given the (comparatively rigorous) housing standards of the Department of Community Development, a gap therefore exists between the "need" and the "effective demand" for housing, at least in the lowest income stratum of the market. From the viewpoint of optimal resource allocation, it may be seriously questioned whether housing should be regarded as an independent objective, largely unrelated to economic performance. Admittedly the need for adequate shelter is basic, indeed essential, but the same cannot always be said of the official standards applied to housing, in South Africa as elsewhere. In practice, forms of squatting or "informal" housing has come to fill the gap between the "need" and the "effective demand" for housing, wherever economic performance has been inadequate to provide for houses of officially approved quality throughout the market spectrum. From an economic viewpoint, "self-help" housing schemes are not necessarily abnormal or reprehensible, but simply reflect a prevailing fact of life, which might well disappear at a higher level of economic performance and welfare. Deliberate attempts to eliminate a needs/effective demand gap by the authorities could easily miscarry and serve to perpetuate a vicious circle in the housing market, as argued on pages 36-37 above.

It should be noted that the Department of Community Development adopts a generally disapproving attitude towards informal, self-help schemes in the "bottom" section of the housing market. This was suggested by the reference to "shanty areas", cited on page 44 above, and emerges clearly in the following extract from the Department's Annual Report for 1977/78 : "Although there may be the exception, it is wishful thinking to believe that the mass of lowly paid individuals, who are usually unskilled workers who seldom have any special capabilities,

can make any significant contribution to the provision of their own housing. The isolated achievements of Third World countries, which have not stood the test of time, but which nevertheless are so often held up as examples, do not really impress, because circumstances in South Africa differ vastly from those obtaining in other countries, which, in contrast with the Republic, lack capital and ability needed to provide housing efficiently. Where self-help schemes were in fact undertaken in other parts of the world, it was done because it was considered to be the most desirable solution - something had to be done - even though their standards fall far short of our own norms. The Republic is still prepared to pay the price of proper housing and is not prepared to accept inferior housing standards. Squatting and shacks, uncontrolled or so-called controlled, resolve nothing, do not save much and inevitably lead to evils."⁴²

Some comment will be made on the Department's attitude (above) in the concluding chapter of this study. For the present, it may be noted that the Community Development viewpoint in the present context does not represent a universally shared value judgment. Reasoning on functional, rather than ethical grounds, Van Zyl has, for example, stated the alternative position as follows: "Often official housing policy insists on minimum space standards and solid construction, in fact a scaled-down type of Western housing. The results of official policies are often high rents and purchase prices coupled with long waiting lists. In contrast squatters can quickly put their sites to good use by the 'spontaneous mobilization' of manpower and materials. Official policy should capitalize on the initiative and involvement of squatters in the task of reducing the housing shortage. But then unrealistic standards must not be set in the first place."⁴³

In summary, the South African housing market, even when restricted to home ownership, consists of a number of differentiated segments, basically distinguished by the income levels of the purchasers. These may be divided into the

following four vertical layers :

(1) In the top segment, housing should be seen as a private, rather than a merit, want . Supply and finance should come from the private sector only, seeing that subsidies paid to homeowners in the higher income brackets not only cause resources to be misallocated, but evidently fail to assist the intended beneficiaries themselves, in the sense of reducing their cost of living.

(2) The next market layer consists of homeowners who receive ("economic", housing at cost price. Although no subsidy is involved here, housing is still treated as a merit want in the sense that it is supplied by the government by means of budgetary provision.

(3) Lower down in the market one encounters subsidised housing (of a "sub-economic" kind), which would, however, appear compatible with economic efficiency, involving some redistribution of real income. This possibly represents merit wants in the most conventionally accepted sense of the term. The determination of the optimal subsidy and rate of construction, admittedly represent practical problems of some complexity.

(4) In the very lowest segment of the market one encounters either a housing backlog (on the Community Development view), or else self-help schemes (as set out by Van Zyl), which may be improved on and might even disappear altogether, in favour of superior housing, as the economic performance and status of the persons concerned as as well as society at large move on to a higher level. However, until more resources are channelled into this segment by the authorities, the housing services consumed here assume the nature of private, rather than merit wants, more or less in conformity with the situation in the top layer of the market.

REFERENCES:

1. CHARLES, SUSAN Housing Economics. Macmillan (London 1977) pp. 19-23 and 55-58.
2. Ibid., pp. 23-27 and 58-70.
3. MAISEL, S.J. "Introduction". In Nevitt, A.A.(ed.): The Economic Problems of Housing. Macmillan (London 1967), p.xii.
4. MUTH, R.F. "Slums and Poverty". In Nevitt, A.A. (ed.): op cit., p.19.
5. EVANS, A.W. The Economics of Residential Location. Macmillan (London 1973), p.2.
6. Volume I of J.H. von Thünen's Der isolierte Staat in Beziehung auf Landwirtschaft und Nationalökonomie was published in 1826.
7. LÖSCH, A. The Economics of Location. John Wiley & Sons. (New York 1967), p.246.
8. Ibid., p.242.
9. STILWELL, F.J.B. Regional Economic Policy. Macmillan (London 1972), pp. 30-36.
10. OHLIN, B. Interregional and International Trade. Harvard University Press (Cambridge, Mass. 1967), p.116.
11. Ibid., p.147
12. LEIJONHUFVUD, A. On Keynesian Economics and the Economics of Keynes. Oxford University Press (New York 1968), p.51. (Emphasis in the original)
13. Ibid., p.67.
14. LIND, H. "Internal Migration in Britain". In Jackson, J.A. (ed.): Migration. Cambridge University Press (Cambridge 1969), p.76.

15. WILLIAMSON, J.G. "Regional Inequality and the Process of National Development." In Needleman, L. (ed.): Regional Analysis. Penguin Books (Harmondsworth 1968), pp. 102-03.
16. RICHARDSON, H.W. Elements of Regional Economics. Penguin Books (Harmondsworth 1969), pp. 56-57.
17. MYRDAL, G. Economic Theory and Underdeveloped Regions. Methuen (London 1963), p.6.
18. SJAASTAD, L.A. "The Costs and Returns of Migration." In Richardson, H.W. (ed.): Regional Economics: A Reader. Macmillan (London 1970), pp. 115-31.
19. ISARD, WALTER
et al. Methods of Regional Analysis: An Introduction to Regional Science. The MIT Press (Cambridge, Mass. 1960), p.68.
20. ALONSO, WILLIAM "Location Theory". In Friedmann, J. and ALONSO, W.(ed.): Regional Development and Planning - A Reader. The MIT Press (Cambridge, Mass. 1964), pp. 78-106.
21. STIGLER, GEORGE J. "The Development of Utility Theory." In PAGE, ALFRED N.: Utility Theory: A Book of Readings. John Wiley & Sons (New York 1968), pp.71-73.
22. THE ECONOMIST Money and Finance Survey. (London, 17 January 1981), p.23.
23. STILWELL, F.J.B. Op. cit., p.29.
24. SOLOW, R.M. "On Equilibrium of Urban Location." In PARKIN, M. (ed.): Essays in Modern Economics. Longman, (London, 1973) pp.2-16.
25. KIRBY, A.M. "Housing Market Studies: A Critical Review". Institute of British Geographers Transactions. New Series, Vol. 1, No. 1, 1976, p.3.

26. RICHARDSON, H.W. Urban Economics. Penguin Books (Harmondsworth 1971), p.25.
27. ECHENIQUE, M. "History of Regional and Urban Models". In PERRATON, J. and BAXTER, R.(ed.): Models, Evaluations and Information Systems for Planners. MTP Construction (Lancaster 1974), p.46.
28. Ibid., pp.44-45.
29. CATER, E. "The Use of Modles in British Planning: Applications in Bedfordshire and the Reading Sub-Region." In PERRATON, J. and BAXTER, R.(ed.): Op.cit., pp.56-78.
30. SOUTH AFRICAN RESERVE BANK: Quarterly Bulletin. December 1980, pp.S94 and S81.
31. THE ECONOMIST Op. cit., p.23.
32. BUREAU FOR ECONOMIC RESEARCH (University of Stellenbosch): Building Survey. No. 48, January 1981, p.10.
33. MUSGRAVE, R.A. The Theory of Public Finance. McGraw-Hill (New York 1959), p.13.
34. DIRECTOR-GENERAL, DEPARTMENT OF COMMUNITY DEVELOPMENT: Memorandum in connection with the Financing of Low-Cost Housing in the Republic of South Africa. (Unpublished)(Pretoria 1980) pp.37-38.
35. CULLINGWORTH, J.B. "Housing Analysis". In ORR, S.C. and CULLINGWORTH, J.B. : Regional and Urban Studies. George Allen & Unwin (London 1969), p.152.
36. Report of the Commission of Inquiry into Housing Matters. (Afrikaans edition). (R P 74/1977), p.37.
37. DIRECTOR-GENERAL, DEPARTMENT OF COMMUNITY DEVELOPMENT: Op. cit.,pp. 9, 18, 20, 22, 26 and 27.

38. HOCHMAN, H.M. and RODGERS, J.D. "Pareto Optimal Redistribution". American Economic Review. Vol. 59 (1969), pp. 542-57.
39. Ibid., pp. 545-47.
40. Ibid., p.556.
41. DIRECTOR-GENERAL, DEPARTMENT OF COMMUNITY DEVELOPMENT: Op. cit., pp. 19, 20, 21 and 40.
42. Report of the Secretary for Community Development for the period 1 October 1977 to 30 September 1978. (R P 24/1979) , p.12.
43. VAN ZYL, F.D.W. Urban Planning and Low-Cost Housing. (Unpublished Memorandum). Department of Urban and Regional Planning, University of the Orange Free State (1980) , p.2.

CHAPTER III

THE COLOURED POPULATION AND HOUSING IN SOUTH AFRICA

The most comprehensive survey of the socio-economic position of South Africa's Coloured population appears in the Report of the Commission of Inquiry into Matters Relating to the Coloured Population Group (RP 38/1976), generally known as the "Theron Commission Report". The present chapter does not set out to summarise the contents of this Report, although frequent reference is made to it. (For the sake of brevity, the Report is described by its official number - RP 38/1976 - in the list of references). Instead of trying to give a comprehensive summary, this chapter discusses selected demographic and economic properties of the Coloured people, which appear most directly related to their housing situation.

1. SOME DEMOGRAPHIC PROPERTIES OF THE COLOURED POPULATION

According to the provisional results of the Population Census of 6 May 1980, the total population of the Republic of South Africa consisted of 23 771 970 persons, distributed as follows between the four main population groups:

<u>Group</u>	<u>Number</u>	<u>Percent</u>
White	4 453 273	18,7
Coloured	2 554 039	10,7
Asian	794 639	3,3
Black	15 970 019	67,2

Given the geographic coverage of the 1980 census - it excludes the population figures for the Republics of Transkei, Bophutatswana and Venda - comparisons with past census enumerations are liable to some statistical problems. Using population figures for the corresponding area in 1970, the total South African population grew at the average annual rate of 2,3 per cent during the 1970-80 census interval, the individual growth rates for the above population groups being as follows: White 1,7 per cent; Coloured 2,2 per cent; Asian 2,4 per cent; and Black 2,5 per cent.

Not only are intertemporal comparisons rendered difficult as a result of the changed spatial coverage, but the accuracy of actually recorded past census figures has been questioned, especially in the case of the Asian, Coloured and Black population groups.¹ In the Theron Commission Report, Sadie estimated that the census underenumeration of the Coloured population had, in the past, been of the following order: 1936 - 6,2 per cent; 1946 - 8,9 per cent; 1951 - 4,7 per cent; 1960 - 2,7 per cent; and 1970 - 3,6 per cent.² Likewise, Sadie also found that there had been a significant underregistration of Coloured births, eg. by as much as 10,5 per cent during the period 1965-70.³

According to available evidence, it appears that the Coloured population has recently experienced a demographic transformation. From the Second World War until the mid-1960s, the Coloured group showed the usual signs of a "population explosion". Its birth rate remained persistently high and even increased, because of improved medical and health facilities, while the death rate fell, with the result that the rate of natural increase reached the high level of some 3,3 per cent per annum during 1960-65. Since then, however, there has been a very rapid decline in fertility, as reflected by the observed rate of population increase of 2,2 per cent per annum during 1970-80. According to Sadie, the present natural increase of the Coloured population may be even somewhat lower, say, of the order of 2,1 per cent.⁴

This process of rapid demographic transformation is not only attributable to the spread of birth control or family planning methods, but it also follows from the general improvement of the socio-economic position of the Coloured population: "Between 1960 and 1977 the percentage of the labour force attached to agriculture diminished from 22 to 13 per cent. Those in skilled and semi-skilled blue collar positions rose from 27,7 to 34,6 per cent, and those in skilled and semi-skilled white collar positions from 8,7 to 18,6 per cent. Moreover, the standard of living of those in unskilled occupations increased greatly. The community experienced

the rise of a strong middle class with stable bourgeois values. That section of society which no longer regards the child as an economic asset, but as an economic liability - whatever all its other contributions to welfare - increased. Accordingly there was also an increase in the proportion (of those) who desire and strive for a higher quality of family (life)."⁵ (Translation).

Of particular interest to the (urban) housing situation, is the degree of urbanisation reached by the various population groups. According to the (provisional) results of the 1980 census, 12 698 538 persons of South Africa's total population, i.e. 53,4 per cent, were living in urban areas, the individual figures for the four population groups being as follows: White 88,9 per cent; Coloured 77,3 per cent; Asian 91,3 per cent; and Black 37,7 per cent. Urbanisation is a process which tapers off with the passage of time, something which is already evident in the case of the White and Asian population groups. However, in the case of Coloured (and especially Black) people, "...the process of urbanisation of these two population groups is probably nowhere near saturation point."⁶ In the nature of things, the gravitation of population towards urban, especially metropolitan, areas raises the issue of optimal residential location, discussed in the previous chapter. In 1970, when 74,0 per cent of the Coloured population were enumerated in urban areas, 59,0 per cent of all urbanised Coloureds were living in the four main metropolitan centres (Cape Peninsula: 40,1 per cent); 3,9 per cent in other larger towns (with a population exceeding 100 000); and 37,1 per cent in smaller towns. According to projected figures, South Africa's total Coloured population may reach 4 890 000 persons by the year 2000 and 7 720 000 persons by 2020.⁷ Assuming that the rate of urbanisation of Coloured people would have reached 90 per cent by those dates, the estimated number of Coloured urban dwellers would then be 4 401 000 and 6 948 000 persons by 2000 and 2020, respectively, or some 223 and 352 per cent of the number actually recorded in 1980. Although these figures indicate a rough order of magnitude only, they do contain significant implications for future employment creation and the urban

housing market.

2. SOME ECONOMIC PROPERTIES OF THE COLOURED POPULATION

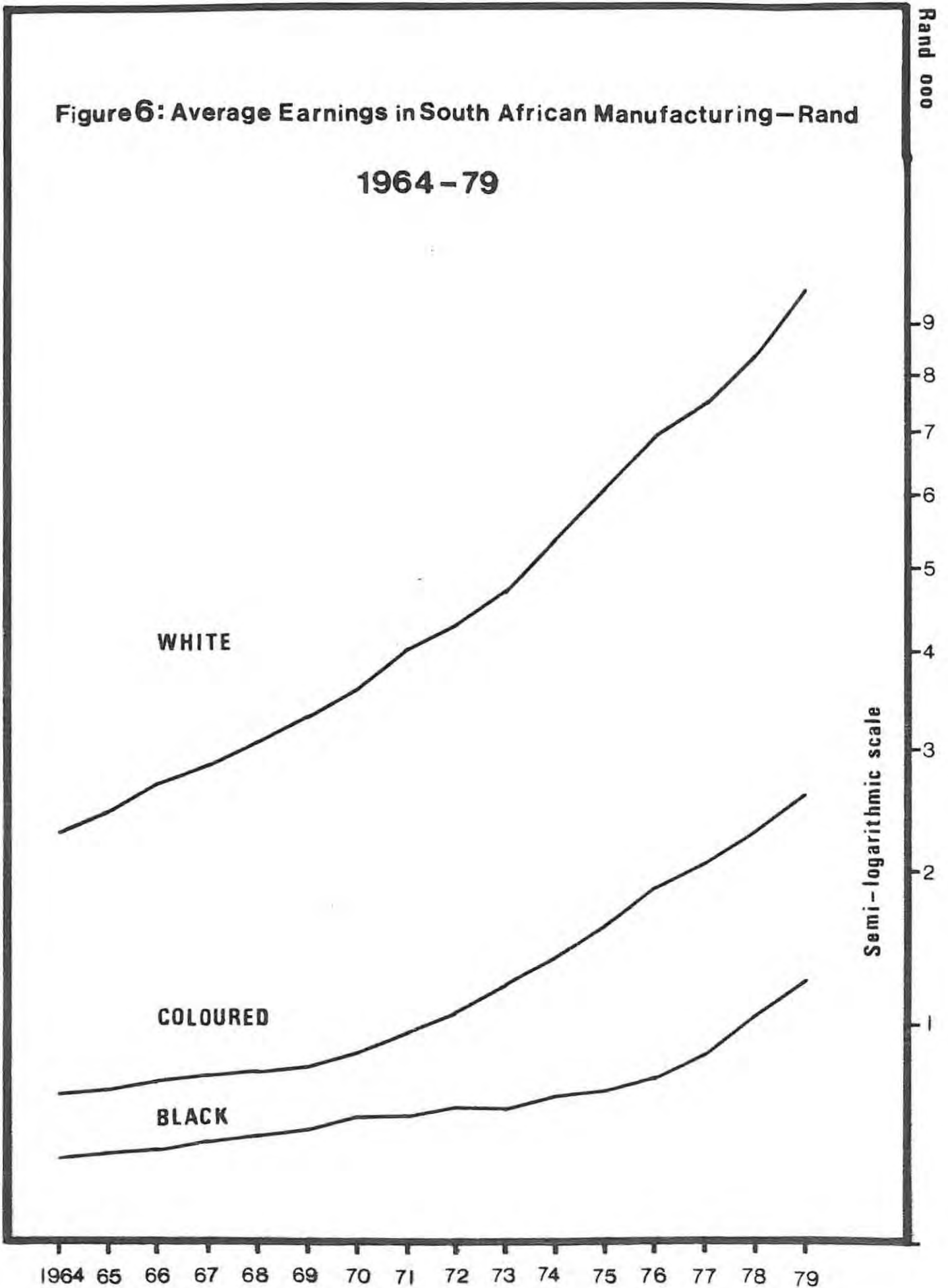
It appeared from the previous section of this chapter that there have been some significant intertemporal shifts within the Coloured labour force, such as a decline in the relative position of agricultural workers and a general increase in the proportion of skilled and semi-skilled workers. At the same time, there has also been an increase in the proportion of Coloured workers in secondary industries, eg. from 24,5 per cent in 1960 to 35,3 per cent in 1970. With the increased rate of Coloured urbanisation observed between 1970 and 1980, it may be assumed that these labour market shifts have been strengthened with the passage of time, although detailed census statistics are not yet available. It was also noted, in the previous section, that the observed decline in Coloured fertility is evidently associated with an increase in their income, measured in absolute terms.

It also seems pertinent to enquire how the relative position of the Coloured population has been affected within the overall context of the South African economy. In one of the more recent studies of income distribution in South Africa, McGrath has estimated that on a somewhat broader definition of Census Income, the shares of the White and Asian population groups remained more or less constant between 1946 and 1970 (at about 72 and 2 per cent respectively), while the share of the Black population fell (from 22,2 to 19,3 per cent) and that of the Coloureds rose (from 4,5 to 6,5 per cent).⁸ Apart from the relative income shares by race, the Theron Commission Report also published per capita personal income figures, including net transfers, which were as follows for 1974-75:⁹

<u>Population Group</u>	<u>Personal Income Share (%)</u>	<u>Per Capita Income (R)</u>
White	64,9	2 534
Coloured	7,2	496
Asian	2,6	584
Black	25,3	237

Keeping in mind the progressive urbanisation and increased participation in secondary industry by the Coloured people, calculations were made in the present study of the average earnings of White, Coloured, Asian and Black workers in manufacturing industry for the period 1964-79, for which comparable statistics are available. (See Table 3 in the Statistical Appendix). These time series are plotted, on a semi-logarithmic scale, in Figure 6. (The Asian series has been omitted, as it moves very close to the Coloured graph. For the period 1964-79, as a whole, average Asian earnings exceeded the Coloured per capita figure by about 9 per cent, with the gap tending to widen somewhat over time).

Figure 6: Average Earnings in South African Manufacturing—Rand
1964—79



The relative position of Coloured per capita earnings in manufacturing vis-à-vis White and Black workers, may not be immediately obvious. In terms of the average manufacturing earnings for all race groups, the long-term Coloured share has remained relatively stable at the approximate level of 65 per cent. Between 1964 and 1971, the earnings gap between Coloured and White workers widened persistently, with the Coloured figure falling from 27,9 to 23,8 per cent of the White earnings level. Since then, however, this trend was generally reversed, and the Coloured average earnings figure now rose from 24,7 per cent in 1972 to 27,4 per cent in 1978, to fall again to 26,9 per cent in 1979.

The Theron Commission also addressed itself to the observed narrowing of the White/Coloured income gap during the 1970s, and ascribed the phenomenon to two causes, namely, (i) wage increases deliberately designed to reduce economic discrepancies between the races on social and political, rather than economic grounds, and (ii) the upward mobility of Coloured labour, entering jobs formerly occupied by Whites, which also carried higher rates of remuneration.¹⁰

It would, however, appear that the changeable nature of the observed income (or earnings) gap should also be related to alternating phases of the business cycle. In general, the 1960s represented a prosperous period in South Africa, while cyclical downswings dominated the decade of the 1970s. Rapid economic growth tends to stimulate the demand for, relatively scarce, skilled labour, rather more than the demand for relatively abundant, unskilled labour. Ceteris paribus, periods of economic prosperity therefore tend to widen the South African White/Non-White earnings gap, as long as the Non-White labour force remains characterised by an abundance of unskilled labour. Taking cognisance of the already noted improvement in Coloured jobs, it will be of considerable interest to observe whether the past behaviour pattern of the earnings gap, with respect to the business cycle, is going to repeat itself in future or not.

Although it seems probable that the improvement in Coloured earnings during the 1970s is indeed, to a significant extent, related to improvements in labour productivity, it is not obvious that the economic position of the Coloureds has recently improved relative to other population groups. The observed narrowing of the White/Coloured earnings gap in manufacturing during 1972-78 seems to have been part of a general tendency for the White/Non-White gap to narrow, a tendency which was not caused by economic factors alone and which may be reversed by the vigorous economic boom of the early 1980s. During the 1970s, average earnings of Asians rose more than those of Coloured workers in manufacturing, while the Coloured/Black average earnings gap (in manufacturing) tended to fluctuate. When the comparison is extended to all forms of economic activity, then it appears that the overall Coloured/Black earnings gap indeed tended to contract during the 1970s.¹¹

Unemployment is seen by the authorities as a serious problem in South Africa.¹² A solution to this problem not only involves greater horizontal and vertical mobility of labour along administrative lines, but also better training and increased productivity of unskilled labour for which there is insufficient demand. In absolute terms, Coloured workers are bound to benefit from such policies, although - as in the recent past - it is not obvious how these developments will influence their relative economic position in South Africa.

3. COLOURED HOUSING PERSPECTIVES

The Theron Commission conducted some detailed research into the pattern of Coloured consumption expenditure in various parts of South Africa, as well as for the country as a whole.¹³ In the table below, the country-wide distribution of Coloured expenditure is compared with the weights which the Department of Statistics currently assigns to different items of consumer expenditure for three separate income groups, as well as the average weights for all three groups.¹⁴ Before examining these two sets of figures, it is, however, necessary

to point out that they are not strictly comparable in a number of ways. Whereas the geographic coverage of the Coloured statistics is country-wide, that of the Department's statistics is limited to the main urban areas, thus presumably capturing the better-off consumers, assuming that urban incomes generally exceed rural incomes. (The three income groups used by the Department of Statistics for this purpose are: Below R2 000 p.a.; R2 000 - R5 999 p.a.; and R6 000 and more p.a.) Moreover, the original tabulations in the Theron Commission Report also included "Insurance and funds", "Tax" and "Saving" as items of consumption expenditure, while items like "direct taxes, life insurance premiums etc." are explicitly omitted from the Department's tabulations. The above three items (which collectively amounted to 8 per cent) were therefore also excluded from the table below. Chronologically, the Theron Commission statistics refer to the year 1974-75, those of the Department to 1978. Finally, while there seems to exist very close correspondence between the various categories of expenditure derived from both sources, they may not agree in every detail. This is, for example, suggested by the relatively wide divergence in the case of the residual item "other". None the less, the general impression gained from comparison can hardly be a misleading one.

DISTRIBUTION OF CONSUMPTION EXPENDITURE (per cent)

	Items	Coloureds (1974-75)	Income groups (1978)			
			Total	Lower	Middle	Higher
1.	Food	43,0	25,0	36,4	29,0	19,7
2.	Alcoholic drinks	2,5	2,1	2,9	2,0	1,8
3.	Tobacco etc.	2,5	1,7	2,7	1,9	1,3
4.	Clothing & Footwear	14,0	8,8	13,2	10,2	6,8
5.	Housing	11,4	17,6	8,6	15,7	21,1
6.	Fuel and Light	1,8	2,1	2,9	2,1	1,8
7.	Furniture & Equipment	7,2	5,9	6,7	5,9	5,9
8.	Household Operation	3,5	5,0	4,9	4,2	5,4
9.	Medical Care	0,4	2,1	1,6	1,9	2,3
10.	Transport	7,1	14,9	7,2	13,8	17,7
11.	Communication	0,2	1,0	0,3	0,8	1,3
12.	Recreation & Entertainment	1,2	3,1	2,4	2,4	3,5
13.	Reading Matter	1,0	1,1	1,1	1,2	1,0
14.	Education	0,2	0,8	0,4	0,5	1,1
15.	Personal Care	3,7	2,9	2,7	3,0	3,0
16.	Other	0,3	5,9	6,0	5,4	6,3
	TOTAL	100	100	100	100	100

With regard to the respective expenditure patterns of the three different income groups, it appears that as income rises, relative spending increases on the following items: Housing, medical care, transport, communication, recreation and entertainment, education, and personal care. It would, however, be misleading to regard all these items as "relative luxuries"; in the case of housing, medical care, transport and education, the spending of the lower income groups is kept within certain limits on account of subsidisation, precisely because such items represent merit wants rather than luxuries at lower income levels.

Relative spending decreases with rising incomes in respect of the following items: Food, alcoholic drinks, tobacco etc., clothing and footwear, fuel and light, and furniture and equipment. In general, expenditure under these headings may presumably be taken to represent outlay on necessities, which follow the "Law of Engel", in the sense of having a negative income elasticity of demand. No clear trend is observable for the items household operation and reading matter, while some uncertainty must surround the residual item "other", which includes such individual items as package tours and hotel accommodation, funeral expenses, membership fees, etc.

Against this general background, the expenditure pattern of the Coloured people would seem to have some peculiar features: The relative expenditure on food and on clothing and footwear, both separately and jointly, appears to be inordinately high. Even the pattern for the metropolitan areas of the Southern Transvaal and the Cape Peninsula,¹⁵ where Coloured people in the higher income brackets should be living, compare unfavourably with even the "lower" income groups above, in the sense that the Theron Commission viewed the percentage spending on food and clothing as "an index of relative poverty."¹⁶ It appeared from the previous section of this chapter that there has at least been no obvious deterioration in the economic position of the Coloureds vis-à-vis other population groups; it is therefore puzzling indeed to encounter a spending pattern which seems to lend itself to the above interpretation, even allowing for the discrepancies between the two sets of data used in the comparison.

Turning to housing in particular, this item represented 11,4 per cent of total Coloured consumption expenditure, as against 8,6 per cent, 15,7 per cent and 21,1 per cent for the lower, middle and higher income groups (in the above table), respectively. Given the intermediate position of the Coloured people in the South African income structure and the official policy towards housing, set out in the previous chapter, these figures are in broad agreement with theoretical expectations in this respect. More than 90 per cent of Col-

oured people in urban areas live in houses erected by the State, and more than 85 per cent of Coloured urban households fell within income brackets that qualified them for state-assisted housing in 1975.¹⁷

The main problems encountered in connection with Coloured urban housing, may be viewed against the general background of the four-tier market which was set out on page 53 above. The Coloured population group was allocated more than 50 per cent of all State housing funds during 1974-78, of which 68 per cent was spent on economic and 32 per cent on sub-economic housing,¹⁸ which tend to coincide with tiers (2) and (3), respectively, of the composite market model. It will be recalled that tier (1) consisted of privately financed houses by people in the higher income groups, while tier (4) was again represented by the poorest section of the community.

Very little controversy seems to surround tier (2), where "economic" housing is supplied by the State at cost price to middle income families. From a theoretical point of view, this market segment also represents a classic example of optimal resource allocation, as was set out in Figure 5(b) on page 47. It is therefore also significant that the Theron Commission reported in generally favourable terms on this segment of the Coloured housing market: "As regards structures, the economic schemes are regarded as good on the whole. They compare favourably with the houses built for the same or a higher amount by private initiative.....Another point is that the fact that these houses can be purchased by the occupiers is welcomed, and this is also welcomed by some of the local authorities who realise that home ownership is not only of direct and indirect benefit to the individual occupier, but also makes for the building up of a solid community....Local authorities also said that in these selling schemes the occupiers seldom failed to pay their instalments."¹⁹ The view that housing at this level ought to be regarded as a merit want, therefore seems justified on theoretical as well as practical grounds, and it is reassuring to note that the bulk of state funds, in this respect, is indeed applied to this market tier.

In contrast, much criticism has been directed at tier (3) of the market, consisting of state-subsidised houses which are rented, and sometimes bought, by households in the lower income brackets. Such criticism is evidently not motivated by the fact that these housing schemes entail a transfer of income to meet the merit wants they purport to represent. Partly there exists dissatisfaction because the houses concerned are considered to be of poor physical quality, and partly because they show little variation in appearance and consequently result in "...the deadly repetition of street upon street in these schemes for the lower income groups."²⁰ Valid as these criticisms may be from an ethical point of view, they do not strike at the economic root of the problem. Some light on this issue is, however, shed by the following extract from the Theron Commission Report: "The Commission visited several of these schemes where every sign of urban decay was already evident. In its efforts to provide the lowest income groups with housing which had to be kept within the means of the tenants, the Department (of Community Development) has for many years stipulated that the two to four-roomed houses must be of a simple type....Overcrowding by big families soon gives rise to slum conditions inside the houses as well as outside... There can be no doubt that such accommodation offers people neither the opportunity nor the challenge to run an orderly household, nor is it conducive to healthy family life."²¹

From an analytical viewpoint, the crux of the matter seems to be that it is difficult to separate tiers (3) and (4) of the housing market, that is, the "poor" and the "very poor". The conditions described above are not necessarily worse in the "informal", "self-help" or "emergency" houses, which the Department of Community Development disapproves of in principle. Yet, at considerable expense, the Department, in spite of its own value judgements, appears to create precisely the kind of conditions which it professes to reject. As the exercise of producing sub-economic houses is still a costly one (for example, about R140 million during 1974-78), the question arises whether a scheme which

so obviously misses its avowed purpose of satisfying merit wants, does not in effect amount to a serious misallocation of resources. As it was argued in the previous chapter, attempts to meet a purported "housing backlog" without reference to economic conditions and job opportunities is more than likely to miscarry, as the facts appear to confirm in the present case. From an economic viewpoint, there seems logic in the question raised by the Theron Commission "...whether the sub-economic houses should not be done away with."²² Until such time as economic performance also permits economic housing, controlled squatting would then have to bridge the gap. Although the Department of Community Development is strongly opposed to this policy, it would, however, be much cheaper and release at least some funds for the construction of additional economic dwelling units. Moreover, several previous tenants have evidently left sub-economic houses (which are still not costless to them) in favour of squatting, while the Theron Commission also found that recent migrant squatters in the town were "...living under conditions that were no worse than they were used to in rural areas; sometimes they were even better."²³ Thus, the main policy implication here seems to be not to try to meet the Coloured "housing shortage" in the first place, but rather to try to create gainful employment and adequate income opportunities for Coloured workers. Decent dwelling units would then follow in the wake of economic development.

In the composite Coloured (urban) housing market, another problem area is, perhaps paradoxically, represented by the position of the higher income groups in the top tier of the market. The reason for this is that the Department of Community Development, apart from the provision of housing (which does, of course, not affect the persons at the "top" of the housing market), "...is also charged with the implementation of the Group Areas Act: all population groups are settled in areas designated for their exclusive occupation and, where re-settlement is unavoidable, in circumstances far superior to those they were accustomed to before."²⁴

The latter part of this statement would not seem to apply to Coloured people in the higher income brackets; indeed, the Department of Community Development itself informed the Theron Commission that "...about 10 per cent of (the Coloured families) who had been resettled (in terms of the Group Areas Act) came from habitable, good homes."²⁵ From a functional viewpoint, the Department of Community Development is thus pursuing two essentially different, and to an extent, conflicting objectives; the provision of low-cost housing and related amenities, on the one hand, and the implementation of racial segregation along residential lines, on the other. The one function does not follow from the other: "Witnesses pointed out to the (Theron) Commission that no Group Areas Act was necessary to clear the slums, since this could have been done by effectively enforcing the Slums Act (Act 53 of 1934)."²⁶ As far as the higher income Coloureds are concerned, they find themselves in the peculiar position of not benefiting by the Department's housing function, yet suffering from its implementation of residential racial segregation. The practical implication, from the economic viewpoint, is that the families concerned simply cannot make an optimal choice with regard to their place of residence, according to the criteria discussed in the previous chapter. This restriction is, of course, not limited to Coloured families in the higher income groups, but it does seem particularly relevant to their case, as they do belong to an economic stratum where direct state regulation of residential location does not normally occur at all; in a position such as theirs, housing is, as a rule, treated as a purely private want.

The Theron Commission reported as follows on Coloured attitudes to the Group Areas Act: "It emerged from evidence received by the Commission that no other statutory measure had evoked so much bitterness, mistrust and hostility on the part of the Coloureds as the Group Areas Act. The majority of the Coloureds believe that in their case the Group Areas Act is applied with unfair consequences as regards the demarcation and siting of Coloured group areas,

as well as the expropriation and removal of Coloureds from established residential areas."²⁷ The statement by the Department of Community Development to the effect that "It should perhaps be emphasised that the (Group Areas) Act applies equally to Whites, Coloureds and Asians"²⁸ appears either ill-advised or disingenuous: According to the Minister of Community Development in 1978, the following number of persons either had been removed or were still to be moved from their homes in terms of the Group Areas Act:²⁹

<u>Population Group</u>	<u>Persons Already Removed</u>	<u>Persons still to be Moved</u>
White	8 299	389
Coloured	374 990	72 215
Asian	172 156	59 437

In relation to the (provisional) 1980 Census figures, the total number of affected persons amounted to 0,2 per cent for Whites, 17,5 per cent for Coloureds and 29,1 per cent for Asians; the impact of the Act has therefore clearly not been equal.

With regard to Coloured persons in the higher income groups, where housing amounts to a private, rather than a merit, want, evidence before the Theron Commission did suggest that their position has been reduced to a sub-optimal one by the Group Areas Act in a number of ways. For example: (1) Before resettlement, such families did not live under slum conditions, but enjoyed good housing in a location of their own choice: "...those who were better off bought plots and built their own houses. In this way several residential areas with attractive homes and gardens came into being in many towns and cities... On the whole this way of life was peaceful, and contacts in many different fields led to sound relations between Whites and Coloureds."³⁰ (2) The implementation of the Group Areas Act was not a costless process for the more well-to-do Coloureds: "...many Coloured land and home owners suffered considerable financial losses as a result of enforced resettlement."³¹ (3) The new areas of resettlement do not necessarily permit an optimal choice of residential location to those

with the means to purchase their own home: "...there are cases where sub-economic houses and hire-purchase houses are jumbled together in the same street or a sub-economic scheme is situated back to back with private properties. This has caused dissatisfaction not only because it might have adverse financial implications for the home-owners concerned, but also because people of different levels of development cannot be thrown together merely because they all happen to have brown skins."³² (4) Compulsory removal to a sub-optimal location invalidates the trade-off between space (or environment) and journey to work (see pages 40 -42 above); the persons concerned may now experience the worst of both worlds: unpleasant living conditions and expensive commuting: "For many Coloureds resettlement has meant that monthly transport expenses to their work have become a major item of expenditure."³³

It thus appears that the (urban) Coloured housing market exhibits some very diverse and unusual features. While economic opportunity and progress seems to be a prerequisite for families to reach the second tier (state-assisted "economic" houses), there is a bar to further advancement, in the sense that the housing services available to the higher income groups may well prove to be sub-optimal, and thus not directly related to their income and preferences.

1. SADIE, J.L. "An Evaluation of Demographic Data pertaining to the Non-White Population of South Africa" (Parts I, II and III). South African Journal of Economics, Vol. 38 (1970), pp.1-34 and 171-191.
2. RP 38/1976, p.3
3. Ibid.
4. SADIE, J.L. "Bruin Bevolking word Demografies Mondig." Rapport, (Johannesburg, 18 February 1979), p.11.
5. Ibid.
6. RP 38/1976, p.17.
7. SADIE, J.L. Projections of the South African Population 1970-2020. Industrial Development Corporation (Johannesburg, undated), pp. 24 and 37.
8. McGRATH, M.D. Racial Income Distribution in South Africa. Department of Economics, University of Natal (Durban 1977), p.23.
9. RP 38/1976, pp. 36 and 38.
10. Ibid., p.41.
11. Department of Manpower Utilisation: Report of the National Manpower Commission for the period 1 November 1979 - 31 December 1979. (RP 61/1980), pp. 25-26 and 45.
12. Office of the Economic Adviser to the Prime Minister: Ninth Economic Development Plan for the Republic of South Africa: 1978-1987. Volume 1 (Pretoria 1979) p.92.
13. RP 38/1976, pp. 42-47.
14. LYNCH, J.P. "The Revision of the Consumer Price Index" South African Journal of Economics. Vol. 47 (1979) pp.59-74.
15. RP 38/1976, p.44.
16. Ibid., pp.42-43.

17. Ibid., p.207.
18. "Community Development - The South African Scene",
Op. cit., p.21
19. RP 38/1976, p.208.
20. Ibid., p. 210.
21. Ibid.
22. Ibid.
23. Ibid., p.224.
24. "Community Development - The South African Scene,"
Op. cit., p.10.
25. RP 38/1976, p.209.
26. Ibid., p.213.
27. Ibid., p.27.
28. "Community Development - The South African Scene",
Op. cit., p.14.
29. GORDON, LORAINÉ Survey of Race Relations in South Africa 1979.
South African Institute of Race Relations (Johannes-
burg 1980), p. 464.
30. RP 38/1976, pp. 212-13.
31. Ibid., p.216.
32. Ibid.
33. Ibid.

CHAPTER IV

THE COLOURED POPULATION OF GRAHAMSTOWN

Grahamstown was founded in 1812 and is today a medium-sized town in the South African population setting : with a population of 41 300 it ranked in 1970 twenty-first according to size of South Africa's urban places. (By 1980, its estimated population had grown to 56 200 persons). Within South Africa's overall urban hierarchy, it is classified as a Major Country Town, and "Despite the dominance of Port Elizabeth (130 km away by road), Grahamstown is able to provide 54 of the 55 categorised functions (actual services provided by an urban centre) and serves the rural and urban residents in a large hinterland."¹ According to provisional statistics, the magisterial district of Albany, where Grahamstown is situated, had an aggregate Personal Income of R 42 121 000 in 1975, which represented 0,221 per cent of the corresponding figure for the Republic of South Africa.

The reason why Grahamstown was selected for some special attention in this study was partly one of convenience; at the same time, it would seem a pertinent example of the kind of migratory phenomenon that was discussed on pages 36-37 above, which in turn has certain special implications for the provision of housing. As Truu has pointed out, "One of the outstanding features of the economic development of South Africa in the twentieth century has been the concentration of population and economic activity in a strictly limited number of localities, viz. the Southern Transvaal and the seaports Cape Town, Durban and Port Elizabeth and their immediate environs....Aside from problems of urban congestion, the counterpart of the process which has resulted in such a degree of concentration of resources has been a relative lack of economic progress in other parts of South Africa."² This chapter tries to establish the broad relationship between migration and economic performance in the case of Grahams-town, and to explore some of the implications resulting from this for local Coloured housing, which may or may not be typical of the conditions found in

many other small towns in South Africa, where some 25 per cent of the country's Coloured people were living in 1970. Perhaps it should be explicitly stated at this stage, that at the time of writing, only the first, provisional results of the Population Census of 1980 were available.

1. THE DEMOGRAPHIC BACKGROUND

Table 1 below gives the population composition of Grahamstown at the various census dates since the Second World War. This information is also shown for the longer period 1904-80 in Figure 7, on a semi-logarithmic scale, where Asians have been omitted on account of their small regional numbers.

Table 1 : Population of Grahamstown by Race, 1946-80

<u>Group</u>	<u>1946</u>	<u>1951</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>
White	9 054	8 680	10 668	10 089	10 158
Coloured	2 884	3 117	4 166	4 986	5 655
Asian	181	178	191	229	294
Black	10 873	11 814	17 586	25 998	40 101
Total	22 993	23 789	32 611	41 302	56 208

The major changes with regard to the interracial distribution of Grahamstown's population have been the fall of the relative share of the Whites, from 39,4 per cent in 1946 to 18,1 per cent in 1980, and the increase in the relative share of the Blacks, from 47,3 per cent in 1946 to 71,3 per cent in 1980. There has been some relative decline in the numerical strength of Grahamstown's Coloured population, from 12,5 per cent in 1946 to 10,1 per cent in 1980. Even when allowing for enumeration inaccuracies, all three of these population groups appear to have been influenced by migration. Apart from other evidence, this is strongly suggested by the comparison of the respective intercensal growth rates in Table 2 below for Grahamstown and South Africa as a whole. (On account of its small regional numbers, the Asian population group has been excluded).

FIGURE 7 :
Grahamstown's Population

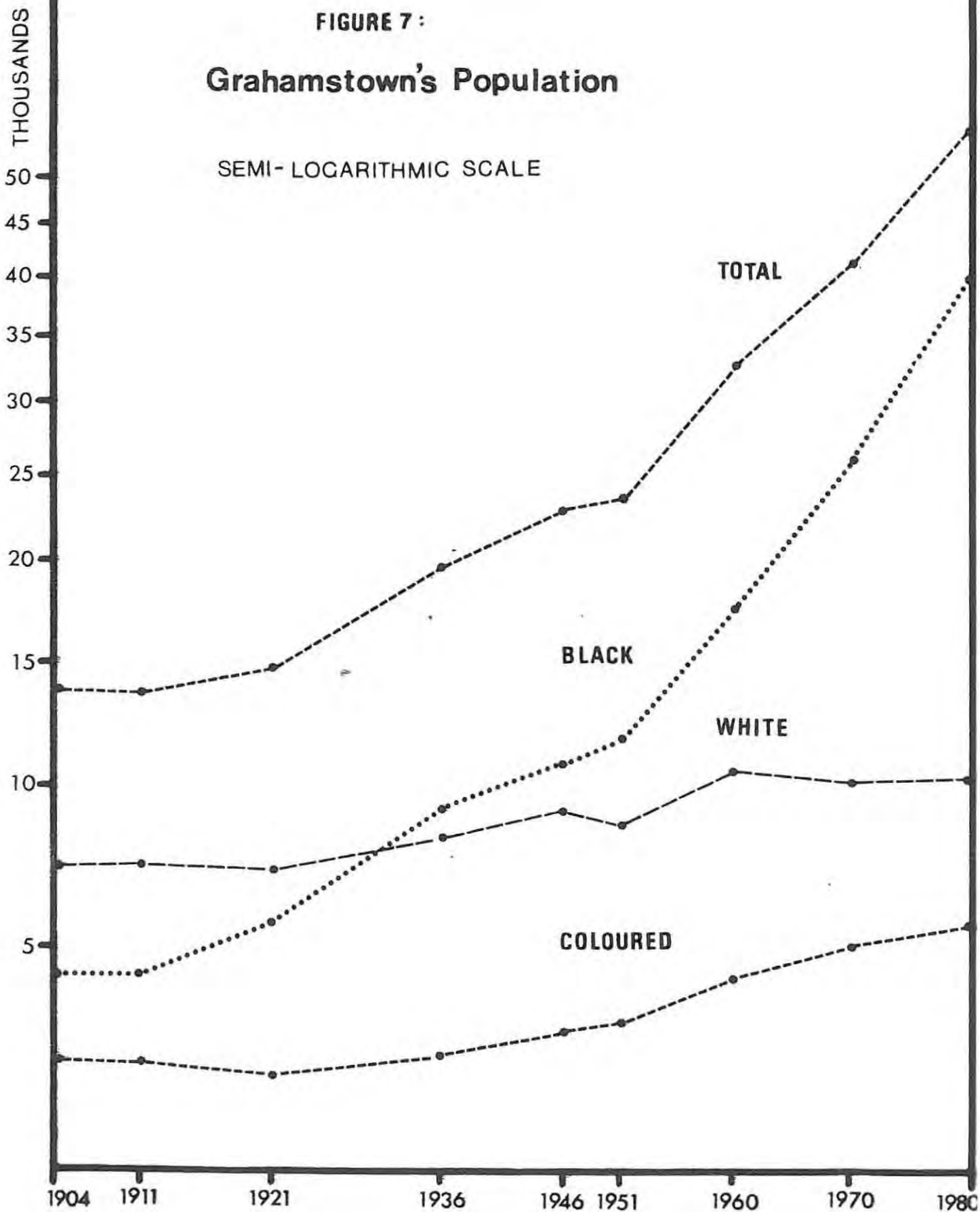


Table 2 : Average annual Population growth rates, per cent, 1946-80

<u>Group</u>	<u>Grahamstown</u>				<u>South Africa</u>			
	<u>1946-51</u>	<u>1951-60</u>	<u>1960-70</u>	<u>1970-80</u>	<u>1946-51</u>	<u>1951-60</u>	<u>1960-70</u>	<u>1970-80⁺</u>
White	-0,9	2,2	-0,6	0,1	2,2	1,6	2,0	1,7
Coloured	1,6	3,2	1,9	1,3	3,5	2,3	3,0	2,2
Black	1,7	4,4	4,1	4,4	1,8	2,6	3,4	2,5
Total	0,7	3,5	2,5	3,1	2,1	2,5	3,1	2,3

(⁺Excludes the Republics of Transkei, Bophutatswana and Venda)

In spite of the development of its educational institutions, some of which have a country-wide impact, Grahamstown's White population growth has been either negligible or even negative, with the exception of the period 1951-60. During the same period, Coloured population growth also appeared more rapid in Grahamstown than in South Africa as a whole. Although this may have been a time of rapid population expansion in Grahamstown's recent history, the previously observed lack of accuracy of Coloured census and birth registration statistics (see page 59) does cast some doubt over the issue. This applies especially to the above Coloured population growth rate of (only) 2,3 per cent for the country as a whole for 1951-60, when the actual rate should have been much higher, against the background of the biological history of the Coloured people (see page 59). Otherwise, Coloured population growth in Grahamstown, although positive, has been well below the national rates. In contrast, the Black population of Grahamstown has grown rapidly indeed by national standards, with the exception of the period 1946-51. In general, it therefore appears that Grahamstown's White and Coloured population groups have been liable to net out-migration in recent times, while its Black population has again experienced a process of net in-migration.

Such migratory patterns have also made an impact on the age distribution of the local population. Although separate data are not available for Grahamstown by itself, Table 3 below compares the age composition of Whites, Coloureds and Blacks living in the urban part of the Albany magisterial district

with that of their national counterparts in 1970. Seeing that some 95 per cent of the urban population of Albany are living in Grahamstown, these figures should be a very close approximation of the town's actual population pattern.

Table 3 : Age Composition of Urban Population 1970, per cent

<u>Age Group</u>	<u>Coloured</u>		<u>White</u>		<u>Black</u>	
	<u>Albany</u>	<u>S.Africa</u>	<u>Albany</u>	<u>S.Africa</u>	<u>Albany</u>	<u>S.Africa</u>
0 - 4	16,3	16,1	7,0	10,8	15,4	11,9
5 - 9	16,8	15,3	7,2	10,4	14,7	10,6
10-14	14,5	13,5	10,3	10,0	14,0	9,8
15-19	11,1	11,0	18,2	9,3	11,2	9,6
20-24	7,4	8,8	10,9	8,9	8,1	11,6
25-29	5,3	6,8	5,6	7,9	6,6	10,3
30-34	5,2	6,0	4,8	6,8	5,9	8,6
35-39	4,6	5,3	4,3	6,1	5,1	7,3
40-44	3,9	4,2	4,6	5,6	4,0	6,0
45-49	3,2	3,3	4,9	5,2	3,5	4,6
50-54	2,9	2,7	4,1	4,7	3,0	3,5
55-59	2,2	2,2	4,7	4,3	2,5	2,2
60-64	1,8	1,8	4,0	3,7	1,8	1,5
65-69	2,0	1,4	3,2	2,5	1,7	1,0
70-74	1,0	0,7	2,2	1,7	1,0	0,6
75+	1,7	0,8	4,0	2,2	1,4	0,7
TOTAL	100	100	100	100	100	100
0 -14	47,6	44,9	24,5	31,2	44,1	32,3
15-64	47,6	52,1	66,1	62,5	51,7	65,2
65+	4,7	2,9	9,4	6,4	4,1	2,3

The median age values for the populations in the above table were as follows: Urban Albany (Grahamstown): Coloureds 15,6 years; Whites 22,8 years; Blacks 17,1 years. Urban South Africa: Coloureds 16,8 years; Whites 24,9 years and Blacks 23,0 years. The generally perceived demographic youthfulness of the Coloured population may be ascribed to high fertility, which has, however, been declining since the mid-1960s, as noted in the previous chapter. The relatively greater youthfulness of Grahamstown's Coloured population would

appear the outcome of age-selective migration rather than exceptionally high regional fertility. This is at least strongly suggested by the phenomenon that there appears to have occurred some narrowing at the base of the population pyramid, in the sense that the age group 5-9 years exceeded the age group 0-4 years (see also Figure 8), although births may, of course, have been under-registered. Employment-motivated migration away from the region is, moreover, implied by the relative deficiency of young Grahamstown Coloured adults in the age bracket 20-39 years, vis-à-vis urban South Africa. On the whole, there was a regional shortfall of 4,5 per cent in the case of the potential economically active Coloured population of Grahamstown (15-64 years), as against the national figure. Accordingly there was a comparatively greater regional "burden of dependency" with regard to the presumed non-working sections of the population (0-14 and 65+ years).

The age composition of Coloured people showed some significant differences from those of the White and Black population groups, which will not be considered in detail here. It may be briefly noted that demographic ageing is advanced in the case of the Whites, especially at the regional level : Not only did the age group 0-14 years amount to only 24,5 per cent in Grahamstown, but White persons aged 65+ formed as much as 9,4 per cent of the population, in spite of the large institutional population at school and university, mostly within the age bracket 10-24 years. The Black population of Grahamstown was still comparatively youthful, although somewhat less so than the Coloureds. There appeared a broad regional deficiency in the broad age bracket 20-49 years, which is again strongly indicative of the attraction which South Africa's metropolitan areas have for migratory workers. Black people of potential working age (15-64 years) represented 65,2 per cent of the total Black population of urban South Africa, as against only 51,7 per cent for Grahamstown; the corresponding Coloured figure was still lower, namely, 47,6 per cent.

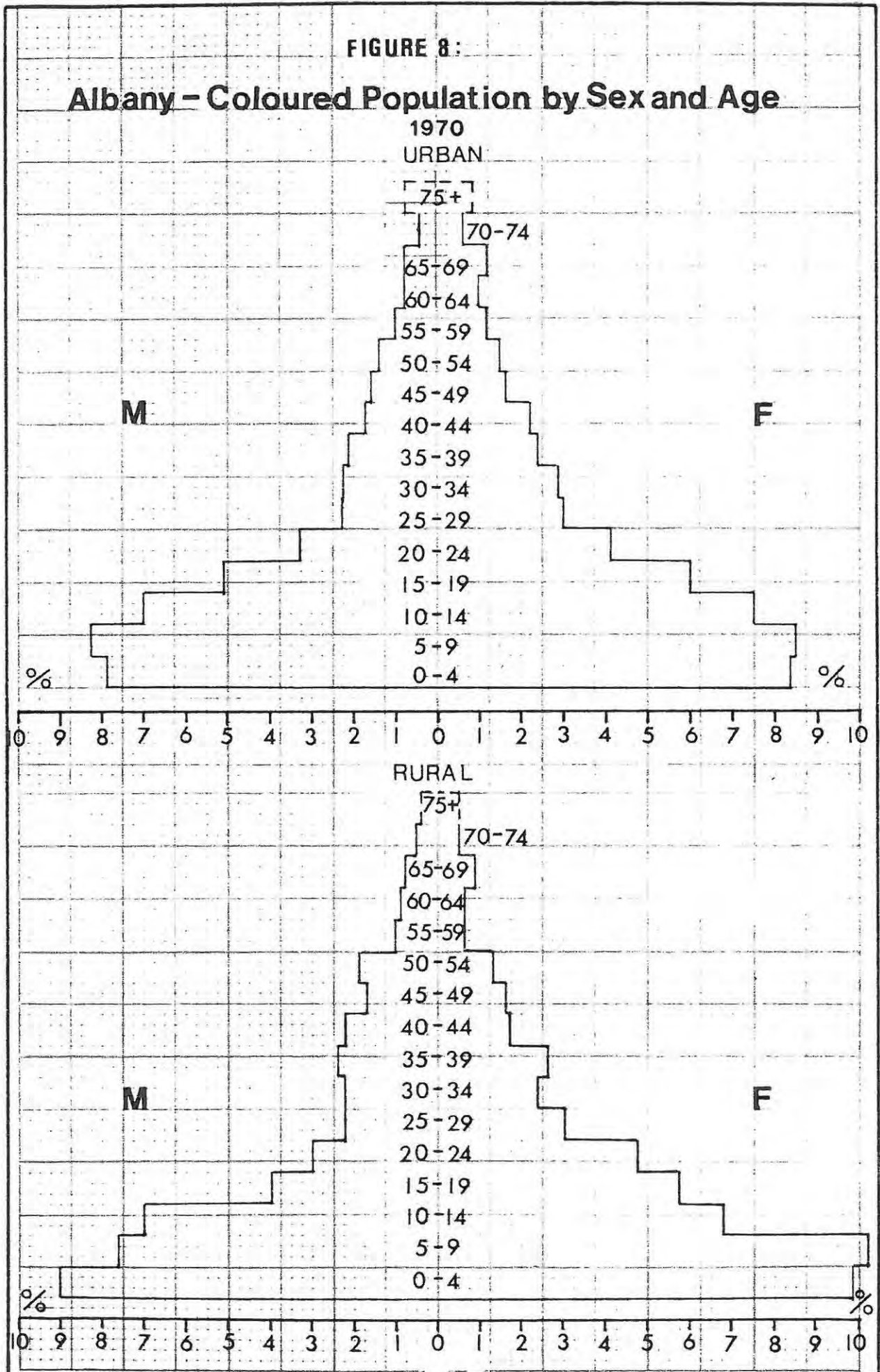


Figure 8 above depicts the population pyramids for Coloured urban and rural residents of the Albany magisterial district in 1970. Apart from the general youthfulness of both populations, an indentation in the middle section of the male side of the pyramid is evident in both cases. This is, of course, a typical feature of populations experiencing net out-migration, which, by virtue of its male bias, has also influenced the sex composition of the regional population. In 1970, the observed male/ female ratio of the urban Coloured population of Albany (practically, Grahamstown) was 1/ 128, as against 1/ 108 for all urban Coloureds in South Africa. There was a similar male deficiency among young adults (aged 20- 39 years) both within Grahamstown and at the regional / national level, thus supporting the inference that most Coloured people who leave Grahamstown are male persons of the younger working ages. The rural Coloured population of Albany also consisted of more females (53,1 per cent) than males (46,9 per cent) and would likewise appear to have experienced some continuous and similarly selective migration away from the region.

Although officially recorded statistics did imply a Coloured net migration into Grahamstown during 1951- 60, it is doubtful whether such a movement did occur in fact. It has, for example, been found that for the Cape Midlands region, of which Grahamstown forms a prominent part, published census and vital statistics also suggested a process of Coloured net in- migration during the same period. Yet, when the published data were adjusted for probable errors, the region appeared to have actually lost Coloured residents during 1951- 60.³ On balance, it seems safe to conclude that Grahamstown has indeed experienced a net loss of some of its most employable Coloured people, certainly for the past twenty years.

Table 4 below gives the White, Coloured, Black and total population

figures, recorded in the censuses of 1970 and 1980, for both the urban and the rural parts of the magisterial district of Albany. (Asians have again been omitted on account of their small numbers).

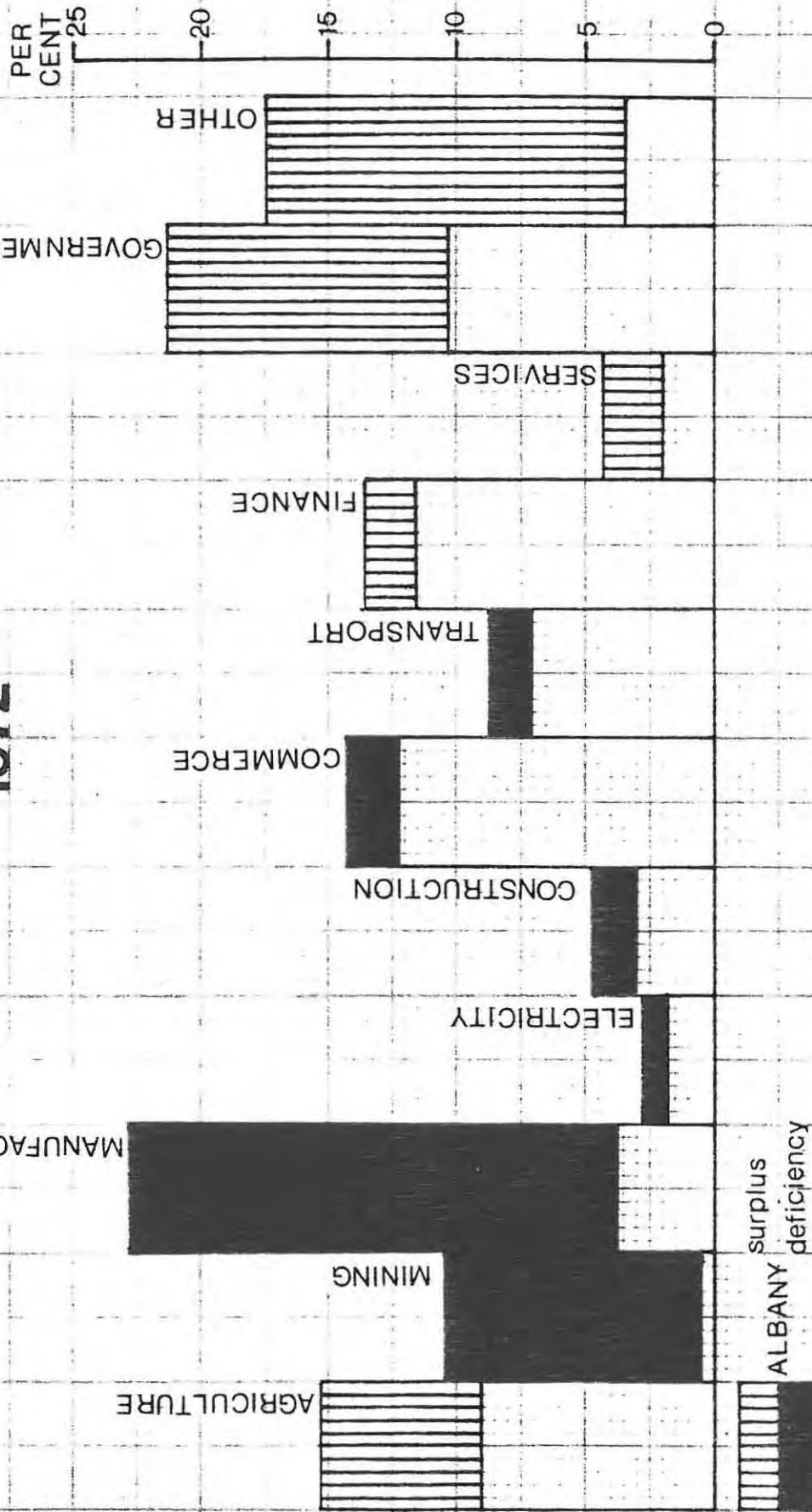
Table 4: Population of Albany by Race, 1970 and 1980

<u>Group</u>	<u>Urban</u>		<u>Rural</u>	
	<u>1970</u>	<u>1980</u>	<u>1970</u>	<u>1980</u>
White	10566	10558	1507	1504
Coloured	5816	6585	1023	1042
Black	28236	43461	23122	13482
Total	44847	60900	25652	16030

From a practical point of view, there was no significant change in the size of the White population, either urban or rural. There was an increase of 13,2 per cent in the urban Coloured population of Albany, while the rural population increased only very slightly, by 1,9 per cent during the entire period 1970- 80. During the same census interval, the urban Coloured population of South Africa as a whole increased by about one-third, while its rural counterpart declined by some 10 per cent. It thus appears that, while there is still a process of rural- urban migration taking place among South Africa's Coloured people as a whole, this is no longer a factor to be considered in Albany, at least not in statistical terms. In a sense, the Coloured population of Grahamstown has become semi- stabilised; although it continues to lose people to other urban (presumably metropolitan) areas, Grahamstown is no longer "fed" by new arrivals from its surrounding rural areas in any significant way. With regard to the Black population, the situation is entirely different. During 1970- 80, urban Blacks in Albany increased by 53,9 per cent, while the Black population of rural Albany fell by 41,7 per cent.

These figures suggest a rapid process of Black urbanisation within the magisterial district of Albany; although Grahamstown does evidently lose some Black work seekers, especially young males, to other urban areas of South Africa, there appears to have occurred an average net in-migration of some 500 Black persons per year into Grahamstown during 1970- 80.⁴

FIGURE 9:
Gross Domestic Product: Albany & RSA
1972



2. ECONOMIC IMPLICATIONS.

Although regional output series are seldom available on a continuous basis, the Department of Statistics has published figures for the "Gross Geographic Product at factor incomes" by magisterial district in South Africa for the years 1968, 1970 and 1972.⁵ Figure 9 accordingly gives a percentage comparison of the composition of the Gross Domestic (or "Geographic") Product of Albany and the Republic of South Africa in 1972. (Separate data for Grahamstown are not available). The most conspicuous features of the distribution are substantial regional deficiencies (black rectangles) in mining and manufacturing, together with obvious regional surpluses (striped rectangles) for the contributions to income by general government and "other" producers, which, in the present case, mainly consist of Rhodes University, welfare organisations and domestic servants. Relatively minor regional deficiencies occur in electricity etc; construction; commerce and accomodation; transport, storage and communication; and minor regional surpluses in financing, real estate and business services; as well as community, social and personal services.

The first nine categories of economic activity shown in Figure 9, represent contributions by "enterprises", which are (briefly) defined as follows by the Department of Statistics: "Included are all resident establishments and similar units, public as well as private, which produce goods and services for sale normally intended to cover their production costs." Such enterprises are not always confined to the market, but do represent activities that generally "pay their own way." In this respect, the economic position of the Albany magisterial district appears to be relatively unfavourable: in 1972 defined enterprises contributed 61,3 per

cent of its Gross Domestic (or " Geographic ") Product, as against 86,3 per cent for South Africa as a whole. For Grahamstown by itself, the contribution by " enterprises " would be rather less, perhaps of the order of 55 per cent, seeing that most agricultural activity takes place in the surrounding rural area. The economy of the town therefore relies heavily indeed on government and educational institutions, and domestic service.

Attempts to discover whether the Albany magisterial district has improved its economic position or not within the national context do not yield clear- cut results. Using the (above) figures for Gross Domestic (or "Geographic") Product, the regional share of Albany fell slightly, from 0,171 per cent in 1968 to 0,170 per cent in 1970, and then rose again to 0,184 per cent of the national figure in 1972. Not surprisingly, these fluctuations were essentially caused by the activities of non- enterprises, that is, general government and "other" producers. Statistics pertaining to "Personal Income" were also obtained from the Bureau of Market Research at the University of South Africa. The aggregate "Personal Income" of a region does, inter alia, make provision for depreciation, interregional factor payments and transfer incomes of households. If "Geographic Income" is the regional equivalent of "Domestic Income", then "Personal Income" represents the regional equivalent of "National Income." ⁶ A regional/ national comparison on this basis, also yielded a somewhat fluctuating, but generally declining, "Personal Income" share for Albany for the following years: 1959- 60: 0,308 per cent; 1964- 65: 0, 323 per cent; 1969- 70: 0,255 per cent; and 1975: 0, 221 per cent. Thus while the absolute position of the Albany district emerges somewhat more favourably when "Personal Income" is used instead of "Geographic Income", its relative position over time again seems to deteriorate on this measure. Although this observation does not necessarily

amount to a "paradox", its explanation would seem to be vested in the overrepresentation of pensioners and other recipients of largely fixed incomes. If such incomes have generally risen less rapidly than factor incomes, then it is quite probable that the "Geographic Income" share of Albany may be rising while its "Personal Income" share is falling. While it would be difficult to claim that the overall economic position of Grahamstown has deteriorated with the passage of time, neither have there been any overt signs of economic progress, within the national context, during recent years.

Personal Income figures, for the magisterial district as a whole, are also available for selected years according to individual population groups. Table 5 below thus compares the White, Coloured and Black per capita Personal Income figures for Albany with those for the Republic of South Africa for 1959- 60, 1969- 70 and 1975. The table also shows the national/ regional income "gap", that is the quotient of the national figure divided by its regional counterpart.

Table 5: Per capita personal Income, Rand

<u>Group</u>	<u>1959- 60</u>			<u>1969-70</u>			<u>1975</u>		
	<u>RSA</u>	<u>Alb.</u>	<u>"Gap"</u>	<u>RSA</u>	<u>Alb.</u>	<u>"Gap"</u>	<u>RSA</u>	<u>Alb.</u>	<u>"Gap"</u>
White	888	710	1,25	1631	1366	1,19	2876	2477	1,16
Coloured	141	78	1,81	277	152	1,82	577	390	1,48
Black	79	54	1,46	131	99	1,32	270	169	1,60

It appears that the income gap between Albany and South Africa has persistently narrowed for White persons from 1956- 60 to 1975. In other words, the effect of continuous net out- migration may have served to reduce interregional earnings discrepancies in this case. For Coloured persons, there was no significant change between 1959- 60 and 1969- 70, after which the

gap narrowed from 1,82 to 1,48 in 1975. After a considerable period of time, interregional migration therefore also seems to have had an influence on regional Coloured earnings similar to that observed in the case of the whites. To some extent this is, of course, an arithmetic inevitability: if population numbers grow more slowly than income, then per capita income figures are bound to show a relative improvement. In the case of Albany's Black population, there seems, however, to have been a relative deterioration, in the sense that the national / regional income gap evidently widened from 1,32 to 1,60 between 1969- 70 and 1975, after a small initial contraction. All three Albany population groups also showed persistent increase in per capita real income between 1959- 60 and 1975, at the following rates: Whites 70 per cent; Coloureds 143 per cent; and Blacks 52 per cent. Further disaggregation of available statistics for Whites and Coloureds shows that white (median) income in rural Albany rose more rapidly than either in Grahamstown or in South Africa as a whole between 1960 and 1970, and that the most rapid increase in all regional (median) incomes took place in the case of Coloured women working in Grahamstown, which increased by 171 per cent during 1960- 70, a figure also high by national standards. In contrast, the (median) personal income of rural Coloured males increased by only 25 per cent during 1960- 70, which fell short of a recorded 31 per cent increase in the Consumer Price Index, thus signifying a decline in their real income. Although there are no similarly detailed figures of Black incomes, it would be somewhat surprising if rural Black workers fared much better than their Coloured colleagues. Such circumstances would then largely explain the very substantial process of Black urbanisation within the Albany magisterial district between 1970 and 1980, which was briefly outlined in the previous section of this chapter.

This large influx of Black people into Grahamstown may well be the main cause of the otherwise exceptional deterioration in regional vis-à-vis national Black per capita incomes during 1970- 75, as observed in Table 5. Given the continued nature of the net migration into Grahamstown, it may no longer be taken for granted that local Black (per capita) incomes are still rising in real terms. Whereas persistent migration away from Grahamstown has evidently had at least some income advantages, in relative terms, for the White and Coloured workers who have remained behind, the same cannot be inferred, without specific evidence, in the case of Grahamstown's Black labour force. This is at least the general conclusion which tends to emerge from the somewhat fragmentary statistical data set out above.

To conclude this section, some reference must be made to the state of unemployment in the present regional context. According to the theoretical approach outlined on pages 29- 35 above, interregional migration tends to be caused by local discrepancies in the labour market. Thus a region with an excess supply of labour starts losing workers to regions with an excess demand for labour. The ensuing migration of workers may have either an "equilibrating" or a "disequilibrating" effect on prevailing economic conditions in the respective regions. Some signs of a partially equilibrating effect on White and Coloured incomes in Grahamstown and Albany have tended to emerge from the present section, while the effect of migration on local Black incomes may have been a partially disequilibrating one.

According to theoretical expectations, migration may also resolve regional problems of unemployment and labour shortage. It is therefore of some interest to establish how the state of employment has developed in Grahamstown, an urban place of medium size which has obviously been

affected by migration for at least several decades. Between 1970 and 1977 the national rates of unemployment in South Africa increased as follows for the individual population groups: Whites from 0,3 to 3,6 per cent (of the economically active population); Coloureds from 1,6 to 10,5 per cent; Asians from 1,4 to 9,2 per cent; and Blacks from 4,1 to 13,0 per cent. ⁷ The year 1977 marked the end of a long and severe economic slump, and the rates recorded then should be viewed as comparatively high by South African standards. The regional distribution of unemployment, for Black and Coloured workers, has followed a pattern of comparatively low rates in rural areas, somewhat higher rates in the (smaller) towns, and considerably higher rates in the metropolitan centres. The highest rates of Black unemployment have, however been encountered in the Black homelands (or states) of South Africa. ⁸

According to the Current Population Survey of the Department of Statistics, the following (average) unemployment rates prevailed among the Coloured and Black work force during July- October, 1980:

Table 6: Coloured and Black Unemployment, per cent

<u>Area</u>	<u>Coloureds</u>	<u>Blacks</u>
Metropolitan	6,2	11,1
Other Towns	5,2	6,3
Farms	4,3	4,0
Black States	n.a.	12,2

If the conditions prevailing in the Black states are taken to be a "special case", then a general explanation of the unemployment pattern in Table 6, in terms of interregional migration, would possibly run along the following lines: As workers leave rural areas to settle in the (smaller) towns, the former

unemployment rate falls while the latter rises, with the pattern repeating itself as workers, in turn, leave the (smaller) towns to settle in metropolitan areas. The size of a place and its rate of unemployment would therefore seem positively correlated.

Although strictly comparable rates are not available for Grahamstown, a survey of the "Quality of Life", conducted by the Institute of Social and Economic Research at Rhodes University for the Urban Foundation, estimated the inordinately high unemployment rates of 21 per cent for the Coloured and 34 per cent for the Black "adult" population (aged 16 years and over), for the period March- July, 1980. When the number of unemployed persons is related to the population of potentially working age (15- 64 years), the resulting unemployment rates in Grahamstown may be even higher. (In contrast, the local White adult unemployment rate was estimated at 1 per cent). The Non-White unemployment situation in Grahamstown therefore neither conforms to theoretical expectations, nor does it fit into the general national pattern. It is also seemingly insensitive to business cycle fluctuations, for 1980 was a very prosperous year in South Africa, with an estimated economic growth rate of 8 per cent. The question raised at the beginning of this chapter (pages 77- 78), whether economic conditions in Grahamstown are typical of those prevailing in other medium- sized South African towns must therefore be answered in the negative; like the Black states, the economy of Grahamstown would rather seem to represent a "special case." A further question which more or less naturally suggests itself is, of course, why people (Blacks) come to Grahamstown, or why do they (Blacks, Coloureds) not leave it in even greater numbers. No single answer, at least of an explicitly economic nature, seems obvious. It is possible that the above unemployment figures are somewhat inflated because they may not have made

sufficient allowance for informal economic activities. Moreover, work in either the formal or the informal sector is not the only source of income; Grahamstown is indeed notorious for its begging, theft, pilfering, housebreaking and robbery. The numerous organised charities in Grahamstown may also enhance its attraction in the eyes of both local and prospective residents, in spite of its deficient employment and income opportunities.⁹ Although a certain amount of research has been done into these issues, it is not feasible, with present information, to systematically quantify their respective significance.

Finally, in a purely local context, economic conditions in Grahamstown may seem a good deal more attractive than they appear in the broad national setting. Thus, according to Census statistics, the 1970 median income of male Coloured workers in Grahamstown exceeded the corresponding figure for rural Albany by two-thirds, while the per capita income of Albany, as a whole, appeared several times higher than those of other neighbouring magisterial districts like Adelaide, Bedford, Alexandria, Peddie and Bathurst, although details pertaining to individual population groups are not available from published sources. With regard to prospective Black migrants, no effective urban influx control is applied in Grahamstown, in contrast with Port Elizabeth. *Ceteris paribus*, Port Elizabeth may well be preferred to Grahamstown, but the influx control factor may serve to raise its status as the second best place of destination in the Eastern Cape Province.

3. COLOURED HOUSING IN GRAHAMSTOWN.

A certain amount of basic data on housing is available from Population Census reports. Table 7 below gives the distribution of the

Coloured population of urban Albany (of whom 80,5 per cent lived in Grahamstown in 1970) and urban South Africa in 1960 and 1970, according to the type of dwelling inhabited.

Table 7: Coloured Population by type of Dwelling, 1960 & 1970

<u>Type of Dwelling</u>	<u>Urban Albany</u>			
	<u>1960</u>		<u>1970</u>	
	<u>Number</u>	<u>Per cent</u>	<u>Number</u>	<u>Per cent</u>
House	4637	93,9	4403	75,5
Flat	13	0,3	35	0,6
Hotel, etc. ^x	90	1,8	67	1,1
Other ^{xx}	197	4,0	1330	22,8
Total	4937	100	5835	100

(continued)

<u>Urban South Africa</u>			
917629	89,0	1341096	87,9
22585	2,2	82798	5,4
7930	0,8	9241	0,6
82500	8,0	91705	6,0
1030644	100	1524840	100

(^x Boarding houses, hostels, old-age homes, orphanages, hospitals, prisons.

^{xx} Apartments, barracks, quarters and similar collective dwellings, huts, cabins, tents, caravans, and unspecified).

Perhaps the most outstanding feature of these figures is the large number of Coloured persons living in houses and the very small number living in flats. Although the percentage of Coloureds living in flats in urban Albany (practically, Grahamstown) fell sharply between 1960 and 1970, this was not accompanied by a significant increase in the relative proportion of flat dwellers. Instead, there occurred a significant shift, in both absolute and relative terms, in favour of persons living in "other" dwelling units, the nature of which has been identified at the bottom of Table 7. By comparison, 72,1 and 8,3 per cent of urban Albany's White population lived in houses and flats, respectively, in 1970; the corresponding figures for urban South Africa as a whole were 79,7 and 14,9 per cent.

With regard to the number of dwelling units, there were, in 1970, 520 houses, only 2 flats and 81 other dwelling units occupied by Coloured people in Grahamstown; the corresponding figures for White persons being 1739, 336 and 26 units. In physical terms, there may be some justification for describing the local Coloured housing situation as "overcrowded": the average number of Coloured persons per house in Grahamstown was 8,5 as against 3,7 in the case of the Whites, the corresponding national figures being 7,0 Coloureds and 4,1 Whites per house. A further scrutiny of the respective shares of houses and flats in the total stock of these dwelling units shows that in the urban areas of South Africa as a whole, 94,1 per cent of the stock consisted of houses and 5,9 per cent of flats in the case of Coloured occupancy, the corresponding figures for White occupancy being 76,2 and 23,8 per cent. It therefore clearly emerges that, in attempting to meet the demand for Coloured housing, both in Grahamstown and urban South Africa in general, supply has overwhelmingly been concentrated on

individual houses rather than flats. Moreover, when the cost of living in a house and in a flat is compared, it emerges that it is usually cheaper for a Coloured family to live in a house than a flat, with the exception of those who have purchased their own home. This state of affairs is evident from Table 8 below:

Table 8: Average monthly payment/ rent (R) in urban areas, 1970

<u>Accomodation</u>	<u>Whites</u>	<u>Coloureds</u>
Purchased house	64,10	26,38
Rented house: unfurnished	35,45	8,42
Rented house: furnished	64,03	11,03
Rented flat: unfurnished	56,68	15,51
Rented flat: furnished	60,48	17,46

Although fully comparable figures for Grahamstown are not available from published sources, White housing expenses on average, tended to be some 24 per cent lower there in 1970 than at the national level. In the case of Grahamstown's Coloured people, the average monthly instalment of repayment on a purchased house amounted to R56,03 in 1970, and the monthly cost of an unfurnished rented house to R 5,84; the local figures were thus, respectively, some 13 and 31 per cent lower than the corresponding national figures. (As indicated above, there were only two flats available for Coloured occupancy in Grahamstown in 1970, one of which was occupied free of charge). With reference to the general situation in South Africa's urban areas, it was thus appreciably cheaper for Coloured families to rent a house rather than a flat.

Judged by the available statistics for 1970, housing could

not be considered comparatively cheap in the case of Grahamstown's Coloured population. Although, in the two examples cited above, local housing costs were admittedly 13 and 31 per cent below the corresponding national figures, median Coloured family income in Grahamstown amounted to R 368 in 1970 (with 10,4 per cent of the families earning no income), as against R 589 for the country as a whole (with 3,9 of the families earning no income). Grahamstown's family income was thus some 38 per cent less than the figure for South Africa as a whole; the discrepancy would, of course, have been significantly greater if a comparable national figure had been available for urban areas only.

The housing statistics for Grahamstown have obviously changed during the past ten years (1970- 80). According to the local Municipality, the stock of houses available to the Coloured community at the beginning of 1981 consisted of 620 units of which 160 (25,8 per cent) were privately owned and the rest rented, 144 (23,2 per cent) at economic and 316 (51,0 per cent) at sub- economic rates. (As stated on page 46 above, families with a monthly income up to R 150 qualify for a sub-economic house). Evidently no flats have been built for Coloured persons, nor do any seem to be planned for the future. However, Grahamstown Municipality does have plans to build 110 sub-economic and 32 economic houses in the near future. With regard to both the existing stock and envisaged addition to it, the supply of houses to Grahamstown's Coloured population is thus dominated by detached, individual dwelling units, the full cost of most of which cannot be recovered from their tenants and must therefore be subsidised.

The inability of Grahamstown's Coloured population to meet the full cost of such " conventional" housing has a long history. Having investigated this issue in 1958, Irving wrote that " The weight of evidence

points to the fact that the major part of the (Coloured) householders cannot bear the incidence of full economic rent... It is recommended that an application be forwarded to the National Housing Commission for a review of the situation with a view to such adjustments as will lead to the reduction of existing rent by subsidisation."¹⁰

Irving also pointed out the deep-rooted nature of the problem of poverty in Grahamstown and added: "Rent subsidisation cannot cure the problem, that is obvious, all that it can do is to alleviate poverty... That is all rent subsidisation can do anywhere. Rent remission cannot solve the ultimate problem and rent subsidisation cannot, alone, put any community which is disorganised back upon its feet."¹¹

Net out-migration of Coloured persons from Grahamstown has evidently neither relieved unemployment nor the problem of insufficient housing supply; a recent estimate put the Coloured housing "backlog" in Grahamstown at about 400 houses.¹² The expectation formed on the basis of the "Classical" theory of interregional migration (see pages 36- 37 above), that a region that loses people is at least likely to experience no housing shortage, is therefore not verified in the case of Grahamstown's Coloured population. The problems of unemployment and housing are even far more acute in the case of the local Black population, for whom a housing shortage of some 3500- 3700 units was recently estimated,¹³ but it did also appear (above) that there has been a net in-migration of Black persons into Grahamstown on a large scale. In the case of Coloured out-migrants, it was pointed out that Grahamstown has evidently been losing some of the most employable members of its potential labour force; although human numbers are thus held in check, those who do remain are therefore likely to have a limited economic potential. However, at the same time, there appeared to have been some recent improvement in the earnings of local Coloured workers,

at least in relative terms vis-à-vis the rest of South Africa. (In the same context, the income position of local Blacks again seems to have deteriorated). While the magnitude of its economic problems is dependent on the position of Grahamstown's Black population, the position of the local Coloured community presents certain seemingly stubborn and even puzzling features. If unemployment and housing shortage havenot been resolved in the case of the relatively small Coloured community, which has been liable to net out-migration for decades, then the employment and housing problems caused by a net influx of Black persons, who represent by far the largest section of Grahamstown's population, presage a serious situation indeed.

REFERENCES:

1. COOK, G.P. Towns of the Cape Midlands and Eastern Karroo.
(Volume 2, Survey of the Cape Midlands and Karroo Regions). Department of Planning (Pretoria 1971), p. 12.
2. TRUU, M.L. "Some Effects of Regional Migration." S.A. Journal of Economics, Vol. 41 (1973), p. 93.
3. TRUU, M.L. Human Resources in the Cape Midlands. (Volume 3, Survey of the Cape Midlands and Karroo Regions). Department of Planning (Pretoria 1971), pp. 99- 100.
4. "Albany is gripped by major economic, migrant crisis." Eastern Province Herald (Port Elizabeth), 13 September, 1980.
5. DEPARTMENT OF STATISTICS Reports No. 09-14-01; 09-14-02; and 09-14-03.
6. STADLER, J.J. Die Nasionale Rekeninge van Suid- Afrika. H.A.U.M. (Cape Town 1973), pp. 292- 94.
7. Ninth Economic Development Programme for the Republic of South Africa, op. cit., p. 96.
8. Ibid., p. 107.
9. WILSWORTH, M.J. Transcending the Culture of Poverty in a Black South African Township. (M.A. Dissertation) Rhodes University (Grahamstown, 1979), p. 108.

10. IRVING, JAMES Economic Rent and Household Income among Cape Coloureds in Grahamstown. ISER, Rhodes University (Grahamstown 1958), p. 39.
11. IRVING, JAMES Economic Rent and Household Income among the African Population of Grahamstown. ISER, Rhodes University (Grahamstown 1958), p. 31.
12. "Blikkiesdorp reprieved till more houses are built." Eastern Province Herald (Port Elizabeth), 21 January 1981.
13. "Multi-million rand roads and houses programme." Grocott's Mail (Grahamstown), 18 November 1980.
"Pretoria talks may end housing logjam in Grahamstown." Eastern Province Herald (Port Elizabeth), 12 November 1980.

CHAPTER V

COLOURED HOUSING AND ECONOMIC EFFICIENCY IN SOUTH AFRICA

The South African economy is of a "mixed" capitalist variety, where most activities are market-related, yet state participation is also widespread. Since the Second World War and up to the late 1970s, public sector expenditure tended to increase more rapidly than the total resources available to the economy;¹ yet present policy is to limit state activity and to encourage the private sector. Thus, for example, the Minister of Finance stated in a recent interview (June 1980) " that the Government was committed to a free enterprise economy and wanted to strengthen the private sector." ²

It did emerge from Chapter I that the South African economy has remained liable to business cycle fluctuations, with distinctive building (and housing) upswings and downswings, which appear mainly positively correlated with the general business cycle. However, by far the greater proportion of new urban houses for Non-White people (over 90 per cent in the case of the Coloureds) has been supplied by the state, and this component of the market does not seem to have followed either a pro- or a counter- cyclical pattern. The chief explanation of this is the fact that the incomes of most Non-White urban dwellers, of whom the Coloureds were selected for some special attention in the present study, are still too low to make them independent of state-assisted housing, given the absolutely and the comparatively high cost of this item. At their income levels, housing is therefore mostly viewed as a merit, rather than a private, want. Fundamentally, state assistance assumes two basic forms:

(i) "economic" housing where the home buyers (or tenants) cover the full cost

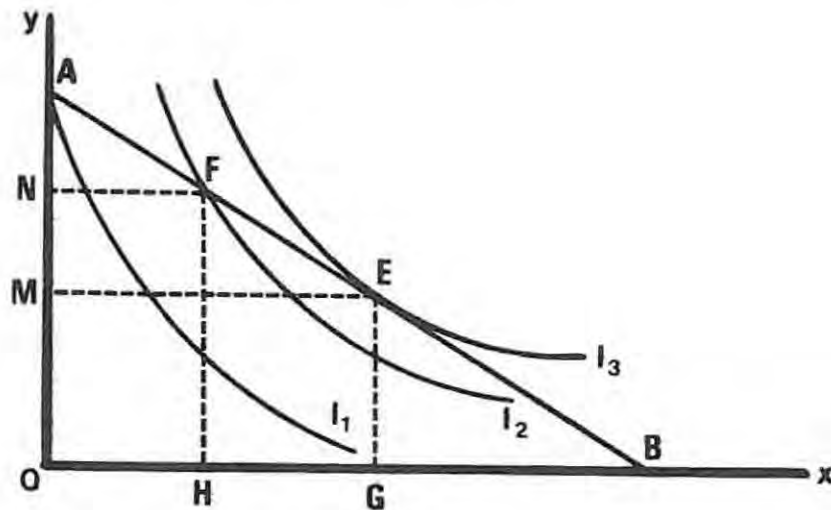
of the house over time, but where the state, represented by the Department of Community Development, aims to break even rather than to make a profit; and

(ii) "sub-economic" housing where the tenants (or the occasional home buyers) are subsidised at the cost of the taxpayers.

The supply of state-assisted housing is not only determined by economic, but also by social, political and other considerations. It emerged from Chapter II that, under South African circumstances, the home buyers (or tenants) concerned may well have to forfeit free choice and optimality in the locational siting of their place of residence. Given its heterogeneous and imperfect nature, the housing market as such hardly ever allows for completely free choice of location anyhow, but in the case of South African urban Non-White residents, in particular, freedom of residential choice is virtually ruled out altogether by the operation of the Group Areas Act. Although a source of irritation to many of those affected, this may in strict economic terms represent no more than yet another constraint to most existing and prospective home owners (and tenants) in the state-assisted market, in the sense of the cliché that "beggars cannot be choosers". However, as noted in Chapter III, this principle does not apply to the economics of the top stratum of income earners among the Coloured population, perhaps 10 per cent of all urban Coloured families. As they do not require state assistance for the purchase of their homes, the application of the Group Areas Act to this more affluent group of people represents a real loss of welfare, in that they are compelled to live in a place not of their own choosing, while alternative, preferred housing would indeed be financially accessible to them. In analytical terms, this implies that the houses which they do in fact inhabit, may well be sub-optimal because they yield a smaller number of services than what would have been available to them without the Group Areas Act. For

example, while such families do derive day to day shelter from their homes, even in a degree of physical comfort, they often forgo such housing services as financial security, capital formation and accessibility to work and other amenities, as well as more subjective benefits like social status, personal security and self-fulfilment.³ This point is illustrated in Figure 10 below.

Figure 10: Housing and Welfare



Assume that Figure 10, an indifference diagram, refers to the group of more affluent Coloured income earners in urban areas, where x represents houses which are not in a proclaimed Group Area and y represents houses that are. (Alternatively, Figure 10 may be taken to represent two respective flows of housing services from the viewpoint of a single household). AB is the opportunity line of the home buyers concerned, determined by their income and by house prices in the two respective areas. Unconstrained equilibrium would be at point E , where the consumers purchase OG of x and OM of y . Assume now that, by government regulation, only OH units may be purchased by a certain population group (e.g. the Coloureds); the previously unconstrained equilibrium at E is now replaced by a constrained equilibrium at F . Consequently the quantity of both x and y

purchased, OH and ON respectively, now appears to be sub-optimal; there is too little of x and too much of y, with the result that the home owners' level of welfare falls from I_3 to I_2 . Should the constraint be an absolute one, in the sense that no houses at all may be purchased in "uncontrolled" areas (x), then the constrained equilibrium shifts to A, where the buyers are on an even lower level of welfare, I_1 . Finally, should consumer preferences change in favour of x (which is very probable with rising socio-economic status), then the indifference curves would become steeper ($\Delta y / \Delta x$ rises) and the home owners would be in an even less optimal position.

The loss of welfare discussed above does not represent merely a marginal problem simply because the number of people affected may be deemed relatively small. The capitalist-type economy relies heavily on its entrepreneurial element, in particular, and on a system of incentives, rather than compulsion and regulation, in general. In this respect, the Group Areas Act thus represents a bar to economic development in South Africa; by driving a wedge between economic performance and the enjoyment of its benefits, it serves to weaken the incentives to work effort and productivity, by reducing the attraction of such a major item of consumer satisfaction as private housing.

Discussing the notion of "equality of opportunity" in a capitalist society, Friedman observed the following: "No arbitrary obstacles should prevent people from achieving those positions for which their talents fit them and which their values lead them to seek. Not birth, nationality, color, religion, sex, nor any other irrelevant characteristic should determine the opportunities that are open to a person- only his abilities. " ⁴ The working of the Group Areas Act in the (private) Coloured housing market thus represents an incongruity in the context of South Africa's official commitment to the free enterprise economy. Such

imperfections at the top of the housing market may well amount to a continuous obstacle to the absorption of Non-White people into the mainstream of the modern sector of the country's economy. It would therefore seem worthwhile to re-examine the operation of the Group Areas Act from an economic viewpoint, rather than on political grounds.

At the bottom of the market, housing is subsidised and therefore treated as a merit, rather than a private, want. It may, however, be argued that the present policy of the Department of Community Development does, in this respect, result in some direct misallocation of resources. Again looking at South Africa's Coloured population, it was noted that a continuous process of urbanisation tends to give rise to housing shortages and overcrowding in the migrants' places of destination, largely the country's main metropolitan centres. Yet, at the same time, there does not seem to have been significant relief on the limited supply of houses in the places from which the migrants have departed. The example of Grahamstown, considered in Chapter IV, may represent an "extreme case", but housing problems appear endemic in many other small towns too. It would seem that subsidised low cost housing has not brought about equilibrium (such as the case suggested in Figure 5 (c) on page 47 above), but has rather created an excess demand which cannot be met under existing policies. This issue is far from simple, for at this level of the housing market there is a distinct difference between the "need" and the "effective demand" for (low cost, subsidised) houses. It was argued (on pages 49- 50 above) that the principle of subsidisation itself need not give rise to economic inefficiency, in the sense of reducing potential social welfare. It is rather the present implementation of the policy of subsidised housing which seems questionable on the grounds of optimal resource allocation.

On purely empirical observation, it did appear that some of the

official sub-economic housing schemes for Coloured people are deteriorating into slums (pages 70- 71 above), thus precipitating the very situation that the Department of Community Development wishes to avoid by rejecting alternative forms of low cost housing of a self-help kind, including organised squatting. Moreover, in spite of a serious shortage of suitable building sites (a problem aggravated by the application of the Group Areas Act Coloureds in the higher income brackets),⁵ little attention seems to have been given to various forms of high density housing; even the number of Coloured families living in flats is minimal by comparable standards. The Department of Community Development has therefore been criticised for its policy of "overemphasizing the physical qualities of the (sub-economic) house."⁶ It is questionable whether it will be possible for South Africa to retain the detached, one-family house as the urban dwelling unit norm, given the potential for future urbanisation that still exists in the case of Coloured and Black people. Aside from the problems of poverty and inability to pay even a subsidised rent under present housing standards, Webb has pointed out that " We will... have to learn to adjust to urbanization and the consequent increase in housing density..."; yet, "The application of high density housing philosophy is still in its infancy in South Africa."⁷

Many of the local misgivings about high density housing seem to be related to the problem of maintaining law and order under such conditions.⁸

This observation raises the wider issue of the general social and economic environment within which any housing policy is pursued, and on which its success fundamentally depends. It has been argued in this study that economic performance and development should in principle precede, or at the very least coincide with, the supply of high-quality modern housing units. This is a widely supported viewpoint; writing on "Housing problems in developing countries," Pjanic, for

example, states the following: "Dwelling conditions are one of the basic elements of social development. That is why through the concept of social development and the concept of balancing the economic and social development a principled concept has been given about the place of the housing economy and dwelling conditions in the socio-economic system. The definition of social development and of factors of its promotion is the starting point and to a certain extent also the theoretical basis, for the formulation of a principled attitude about housing policy." ⁹

The Department of Community Development would seem to be making a serious factual error in regarding South Africa as " a prosperous country" ¹⁰ in the international setting. Even a cursory examination of a document like the World Bank's "World Development Report" shows that South Africa's international socio-economic position is very much that of a middle-income country, in respect of per capita income, adult literacy, life expectancy, etc. The plain fact of the matter seems to be that South Africa's present resources do not yet permit every family, irrespective of its income, to live in an individual house of the standard acceptable to the Department of Community Development. It is rather necessary to "cut one's coat according to one's cloth," which in the present case means that the potentialities of self-help and other high density housing should be seriously investigated in the case of urban low income families. The body principally responsible for the policy in connection with state-assisted housing in South Africa is the National Housing Commission, which includes experts in the fields of quantity surveying, medical and public health matters, sociology, law, local government, etc., but nobody in economics. ¹¹

In spite of the evident economic problems at the top and the bottom tiers of the urban housing market in South Africa, which are poignantly stressed by the present position of the Coloured population, it should be noted that the

position of middle income families closely conforms to the principle of optimal resource allocation (see pages 47- 48 above). In this respect, the application of an economic norm, whether deliberate or not, indeed seems to have given rise to good practical results. ¹²

REFERENCES:

1. Ninth Economic Development Programme for the Republic of South Africa 1978-1987, op. cit., p. 68.
2. "Horwood says Government won't encroach." Evening Post (Port Elizabeth), 30 June 1980.
3. BOADEN, B.G. "A Laissez-Faire Approach to the Housing of Urban Blacks." S.A. Journal of Economics, Vol. 48 (1980), pp. 31- 37.
4. FRIEDMAN, MILTON and ROSE Free to Choose. Penguin Books (Harmondsworth 1980), p. 163.
5. RP 38/ 1976 , p. 223.
6. BOADEN, B.G. Op. cit., p. 29.
7. WEBB, T.L. "Housing in South Africa- the Future". Supplement to the Standard Bank Review, September 1972, p. 4.
8. RP 38/1976, p. 225.
9. PJANIC, LJUBINKA "Housing Problems in Developing Countries." In NEVITT, A.A. (ed.), op. cit., p. 189.
10. DIRECTOR-GENERAL, DEPARTMENT OF COMMUNITY DEVELOPMENT Memorandum in connection with the Financing of Low-Cost Housing in the Republic of South Africa, op. cit., p. 37.
11. Ibid., pp. 12- 13.
12. RP 38/ 1976, p. 209.

LIST OF GRAPHS

	<u>Page</u>
Figure 1 : Business Cycle Model	4
Figure 2 : Building Activity and the Business Cycle in South Africa 1960-80	16
Figure 3 : State-Supplied Housing in South Africa 1964-78	18
Figure 4 : The Housing Market	24
Figure 5 : Housing Policy Models	47
Figure 6 : Average Earnings in South African Manufacturing - Rand 1964-79	63
Figure 7 : Grahamstown's Population 1904-80	79
Figure 8 : Albany - Coloured Population by Sex and Age 1970	83
Figure 9 : Gross Domestic Product : Albany and R S A 1972	87
Figure 10: Housing and Welfare	106

STATISTICAL APPENDIX

TABLE 1: VALUE OF RESIDENTIAL BUILDING PLANS PASSED AND BUILDINGS COMPLETED,
1960 - 1980 (Quarterly averages based on monthly statistics) INDEX 1970 = 100

Year and Quarter	Building Plans Passed	Buildings Completed	Year and Quarter	Building Plans Passed	Buildings Completed
1960 I	29,1	35,1	1967 I	52,7	56,7
II	28,0	38,3	II	60,9	65,9
III	26,8	39,2	III	58,6	72,0
IV	26,1	39,0	IV	66,2	77,7
1961 I	22,5	39,9	1968 I	55,5	82,6
II	20,3	37,8	II	65,4	77,0
III	16,4	36,0	III	73,6	67,4
IV	15,2	29,4	IV	111,5	72,5
1962 I	15,6	23,5	1969 I	79,8	74,0
II	18,1	23,9	II	77,7	81,1
III	22,3	24,5	III	82,3	82,0
IV	25,5	28,4	IV	90,2	76,9
1963 I	27,0	31,1	1970 I	96,8	86,4
II	30,0	32,9	II	97,9	92,4
III	35,6	33,3	III	105,3	106,0
IV	39,4	32,6	IV	99,2	113,3
1964 I	42,0	36,5	1971 I	104,8	115,2
II	45,5	46,2	II	106,1	120,3
III	53,6	45,9	III	96,8	123,7
IV	50,2	47,0	IV	94,9	129,1
1965 I	65,2	54,0	1972 I	103,7	116,8
II	55,1	59,7	II	104,4	126,4
III	42,9	60,8	III	113,7	126,9
IV	40,5	65,5	IV	122,0	122,5
1966 I	38,6	60,1	1973 I	137,8	149,8
II	39,2	52,6	II	151,8	149,5
III	50,6	60,4	III	162,6	151,1
IV	49,3	65,3	IV	155,9	160,0

TABLE 1 (continued)

Year and Quarter	Building Plans Passed	Buildings Completed
1974 I	168,6	177,4
II	157,1	181,0
III	139,1	204,3
IV	118,4	201,5
1975 I	108,4	176,7
II	143,3	197,3
III	149,8	178,8
IV	169,7	187,7
1976 I	182,1	191,4
II	153,1	191,3
III	144,4	203,2
IV	134,1	202,5
1977 I	141,4	211,4
II	102,0	185,9
III	102,8	180,0
IV	103,0	165,3
1978 I	110,6	168,3
II	112,7	168,7
III	117,3	161,1
IV	129,6	179,5
1979 I	141,9	159,9
II	155,6	171,4
III	177,2	175,7
IV	215,3	187,2
1980 I	249,5	215,7
II	321,4	242,3
III	367,0	259,2

(Source: S.A. Reserve Bank Quarterly Bulletins).

TABLE 2: HOUSING UNITS PROVIDED OUT OF STATE FUNDS, 1 April 1964 - 31 December 1978.

Year	Whites	Coloureds	Asians	Blacks ⁺	Total	Cost(R)
1964/65	2 664	5 967	5 019	17 756	31 406	31 783 250
1965/66	4 775	6 177	2 205	16 375	29 535	44 490 299
1966/67	7 336	7 321	3 885	10 498	29 040	59 057 818
1967/68	4 702	6 753	4 540	14 479	30 481	55 758 300
1968/69	4 016	7 935	3 350	14 955	30 256	58 332 197
1969/70	4 042	12 530	2 191	12 212	30 975	62 695 007
1970/71	4 975	8 708	3 473	8 582	25 738	83 100 693
1971/72	5 662	17 099	1 892	6 717	31 370	75 926 881
1972/73	6 203	9 277	3 358	5 272	24 110	96 526 874
1973/74	4 442	10 550	3 640	7 573	26 205	91 509 912
1974/75	3 881	10 311	1 345	8 111	23 648	112 875 816
1975/76	5 657	12 430	1 558	7 835	27 480	162 861 320
1976/77	4 818	16 992	2 800	6 106	30 716	149 871 546
1977/78	3 158	8 421	2 278	3 392	17 249	176 766 878
(1978 - (1 Apr - (31 Dec.	2 141	20 470	3 261	8 795	34 667	217 581 000
TOTAL	68 472	160 941	44 795	148 658	422 866	1479 137 791

⁺Blacks in White urban areas only.

(Source: Department of Community Development, Pretoria.)

TABLE 3: AVERAGE PER CAPITA EARNINGS IN MANUFACTURING,
1964-79 (RAND)

YEAR	WHITE	COLOURED	ASIAN	BLACK	TOTAL
1964	2 300,7	643,0	675,1	345,2	974,4
1965	2 446,2	680,6	692,8	375,3	1 047,7
1966	2 696,6	707,3	744,7	392,6	1 116,4
1967	2 860,0	741,0	781,9	421,8	1 171,8
1968	3 079,0	769,9	816,2	455,7	1 245,3
1969	3 270,1	790,2	841,7	484,5	1 289,1
1970	3 594,5	851,0	894,7	533,3	1 382,3
1971	4 012,3	953,2	1 035,3	532,2	1 513,7
1972	4 289,2	1 060,6	1 145,7	571,3	1 626,1
1973	4 688,3	1 226,0	1 299,6	577,1	1 805,8
1974	5 370,8	1 394,8	1 514,8	618,8	2 074,1
1975	6 125,4	1 605,8	1 838,2	667,5	2 410,0
1976	6 856,8	1 850,7	2 205,1	725,1	2 771,2
1977	7 504,9	2 051,1	2 444,0	857,1	3 088,6
1978	8 377,6	2 292,1	2 661,0	1 046,1	3 511,1
1979	9 664,7	2 601,4	2 982,7	1 276,0	4 024,7

(Source: Department of Statistics: Bulletin of Statistics).

BIBLIOGRAPHY

I. Books, monographs and articles.

1. Alonso, William: "Location Theory." In Friedman, J. and Alonso, W.(ed.): Regional Development and Planning- A Reader. The MIT Press (Cambridge, Mass.) 1964.
2. Boaden, B.G.: " A Laissez- Faire Approach to the Housing of Urban Blacks." S.A. Journal of Economics, Vol. 48 (1980).
3. Burns, A.F. and Mitchell, W.C.: Measuring Business Cycles. National Bureau of Economic Research (New York) 1950.
4. Cater, E.: "The Use of Modules in British Planning: Applications in Bedfordshire and the Reading Sub-Region." In Perraton, J. and Baxter, R. (ed.): Models, Evaluations and Information Systems for Planners. MTP Construction (Lancaster) 1974.
5. Charles, Susan: Housing Economics. Macmillan (London) 1977.
6. Clark, J.M.: Strategic Factors in Business Cycles. National Bureau of Economic Research (New York) 1949.
7. Cook, G.P.: Towns of the Cape Midlands and Eastern Karroo. (Volume 2, Survey of the Cape Midlands and Karroo Regions). Department of Planning (Pretoria) 1971.
8. Cullingworth, J.B.: " Housing and the State." In Nevitt, A.A. (ed.): Economic Problems of Housing. Macmillan (London) 1967.
9. Cullingworth, J.B.: "Housing Analysis." In Orr, S.C. and Cullingworth, J.B.: Regional and Urban Studies. George Allen and Unwin (London) 1969.
10. De Kock, G.C.P.: "The Business Cycle in South Africa." S.A. Journal of Economics, Vol. 43 (1975).

11. De Kock, G.C.P.: "The New South African Business Cycle and its Implications for Monetary Policy." S.A. Journal of Economics, Vol. 48 (1980).
12. Donnison, D.V.: "The Political Economy of Housing." In Nevitt, A.A. (ed.): Economic Problems of Housing. Macmillan (London) 1967.
13. Echenique, M.: "History of Regional and Urban Models." In Perraton, J. and Baxter, R. (ed.): Models, Evaluations and Information Systems for Planners. MTP Construction (Lancaster) 1974.
14. Estey, J.A.: Business Cycles: Their Nature, Cause and Control. Prentice-Hall (New York) 1950.
15. Evans, A.W.: The Economics of Residential Location. Macmillan (London) 1973.
16. Evans, M.K.: Macroeconomic Activity. Harper and Row (New York) 1969.
17. Friedman, Milton and Rose: Free to Choose. Penguin Books (Harmondsworth) 1980.
18. Gordon, Loraine (ed.): Survey of Race Relations in South Africa. S.A. Institute of Race Relations (Johannesburg) 1980.
19. Guttentag, J.M.: "The Short Cycle in Residential Construction." American Economic Review, Vol. 51 (1961).
20. Haberler, G.: Prosperity and Depression. League of Nations (Geneva) 1941.
21. Hansen, A.H.: Business Cycles and National Income. George Allen and Unwin (London) 1968.
22. Hansen, A.H.: Fiscal Policy and Business Cycles. W.W. Norton and Co. (New York) 1941.

23. Hansen, A.H.: Full Recovery or Stagnation? Adam and Charles Black (London) 1938.
24. Hicks, J.R.: A Contribution to the Theory of the Trade Cycle. Clarendon Press (Oxford) 1950.
25. Hochman, H.M. and Rodgers, J.D.: "Pareto Optimal Redistribution." American Economic Review. Vol. 59 (1969).
26. Irving, James: Economic Rent and Household Income among Cape Coloureds in Grahamstown. ISER, Rhodes University (Grahamstown) 1958.
27. Irving, James: Economic Rent and Household Income among the African Population of Grahamstown. ISER, Rhodes University (Grahamstown) 1958.
28. Isard, Walter: Methods of Regional Analysis: An Introduction to Regional Science. The MIT Press (Cambridge, Mass.) 1960.
29. Kirby, A..M.: "Housing Market Studies: A Critical Review." Institute of British Geographers Transactions. New Series, Vol. 1, No 1, 1976.
30. Leijonhufvud, A.: On Keynesian Economics and the Economics of Keynes. Oxford University Press (New York) 1968.
31. Lind, H.: "Internal Migration in Britain." In Jackson, J.A. (ed.): Migration. Cambridge University Press (Cambridge) 1969.
32. Lösch, A.: The Economics of Location. John Wiley and Sons (New York) 1967.
33. Lundberg, Erik (ed.): The Business Cycle in the Post-War World. Macmillan (London) 1955.
34. Lynch, J.P.: "The Revision of the Consumer Price Index." S.A. Journal of Economics, Vol. 47 (1979).

35. Matthews, R.C.O.: The Trade Cycle. Cambridge University Press (Cambridge) 1960.
36. Maisel, S.J.: "Introduction." In Nevitt, A.A. (ed.): Economic Problems of Housing. Macmillan (London) 1967.
37. Mc Grath, M.D.: Racial Income Distribution in South Africa. Dept. of Economics, University of Natal (Durban) 1977.
38. Metzler, L.A.: "The Nature and Stability of Inventory Cycles." Review of Economics and Statistics, Vol. 23 (1941).
39. Musgrave, R.A.: The Theory of Public Finance. Mc Graw-Hill (New York) 1959.
40. Muth, R.F.: "Slums and Poverty." In Nevitt, A.A.: Economic Problems of Housing. Macmillan (London) 1967.
41. Myrdal, G.: Economic Theory and Underdeveloped Regions. Methuen (London) 1963.
42. Ohlin, B.: Interregional and International Trade. Harvard University Press (Cambridge, Mass.) 1967.
43. Pjanic, L.: "Housing Problems in Developing Countries." In Nevitt, A.A. (ed.): Economic Problems of Housing. Macmillan (London) 1967.
44. Richardson, H.W.: Elements of Regional Economics. Penguin Books (Harmondsworth) 1969.
45. Richardson, H.W.: Urban Economics. Penguin Books (Harmondsworth) 1971.
46. Sadie, J..L.: "An Evaluation of Demographic Data pertaining to the Non-White Population of South Africa." S.A. Journal of Economics, Vol. 38 (1970).
45. Sadie, J.L.: Projections of the South African Population 1970- 2020. Industrial Development Corporation (Johannesburg) undated.
48. Sadie, J.L.: "Bruin Bevolking word Demografies Mondig." Rapport (Johannesburg) 18 February 1979.

49. Sjaastad, L.A.: "The Costs and Returns of Migration." In Richardson, H.W. (ed.): Regional Economics: A Reader. Macmillan (London) 1970.
50. Smit, D.J. and Van der Walt, B.E.: "Business Cycles in South Africa during the Post-War Period 1946 to 1968." S.A. Reserve Bank Quarterly Bulletin, September 1970.
51. Smit, D.J. and Van der Walt, B.E.: "Business Cycles in South Africa during the Period 1968 to 1972." S.A. Reserve Bank Quarterly Bulletin, June 1973.
52. Solow, R.M.: "On Equilibrium of Urban Location." In Parkin, M.. (ed.): Essays in Modern Economics. Longman (London) 1973.
- 52a. Stadler, J.J.: Die Nasionale Rekeninge van Suid-Afrika. HAUM (Cape Town) 1973.
53. Stigler, George J.: "The Development of Utility Theory." In Page, A.N. (ed.): Utility Theory: A Book of Readings. John Wiley and Sons (New York) 1968.
54. Stilwell, F.J.B.: Regional Economic Policy. Macmillan (London) 1972.
55. Tinbergen, J.: Business Cycles in the United States of America 1919-1932. League of Nations (Geneva) 1939.
56. Tinbergen, J. and Polak, J.J.: The Dynamics of Business Cycles- A Study in Economic Fluctuations. Routledge and Kegan Paul (London) 1950.
57. Truu, M.L.: Human Resources in the Cape Midlands. (Volume 3, Survey of the Cape Midlands and Karroo Regions). Department of Planning (Pretoria) 1971.
58. Truu, M.L.: "Some Effects of Regional Migration." S.A. Journal of Economics, Vol. 41 (1973).
59. Webb, T.L.: "Housing in South Africa- The Future." Supplement to the Standard Bank Review, September 1972.
60. Williamson, J.G.: "Regional Inequality and the Process of National Development." In Needleman, L. (ed.): Regional Analysis. Penguin Books (Harmondsworth) 1968.

II. Official Publications:

1. Department of Community Development: Report of the Secretary of Community Development for the period 1 October 1977 to 30 September 1978. (RP 24/ 1979).
2. Department of Community Development: Community Development- The South African Scene. Chris van Rensburg Publications. (Johannesburg 1979).
3. Office of the Economic Adviser to the Prime Minister: Ninth Economic Development Programme for the Republic of South Africa: 1978- 1987, Vol. 1 (Pretoria 1979).
4. Department of Manpower Utilisation: Report of the National Manpower Commission for the period 1 November 1979 - 31 December 1979. (RP 61/ 1980).
5. Department of Statistics: Gross Geographic Product at Factor Incomes by Magisterial District, 1968, 1970 and 1972. (Reports No. 09-14-01, 09-14-02, and 09-14-03.)
6. Department of Statistics: Population Census Reports, and Statistical News Releases, 1960, 1970 and 1980.
7. Report of the Commission of Inquiry into Matters relating to the Coloured Population Group (Theron Commission). (RP 38/ 1976).
8. Report of the Commission of Inquiry into Housing Matters (Fouché Commission). (RP 24/ 1979).

III. Newspapers and Journals:

1. Building Survey (Bureau for Economic Research, Stellenbosch).
2. Eastern Province Herald (Port Elizabeth).

3. The Economist (London).
4. Evening Post (Port Elizabeth).
5. Financial Mail (Johannesburg).
6. Grocott's Mail (Grahamstown).
7. Standard Bank Review (Johannesburg).

IV. Unpublished material:

1. Director-General, Department of Community Development: Memorandum in connection with the Financing of Low-Cost Housing in the Republic of South Africa. (Pretoria 1980).
2. Van Zyl, P.D.W.: Urban Planning and Low Cost Housing. (University of the Orange Free State 1980).
3. Wilsworth, M.J.: Transcending the Culture of Poverty in a Black South African Township. (M.A. dissertation, Rhodes University 1979).