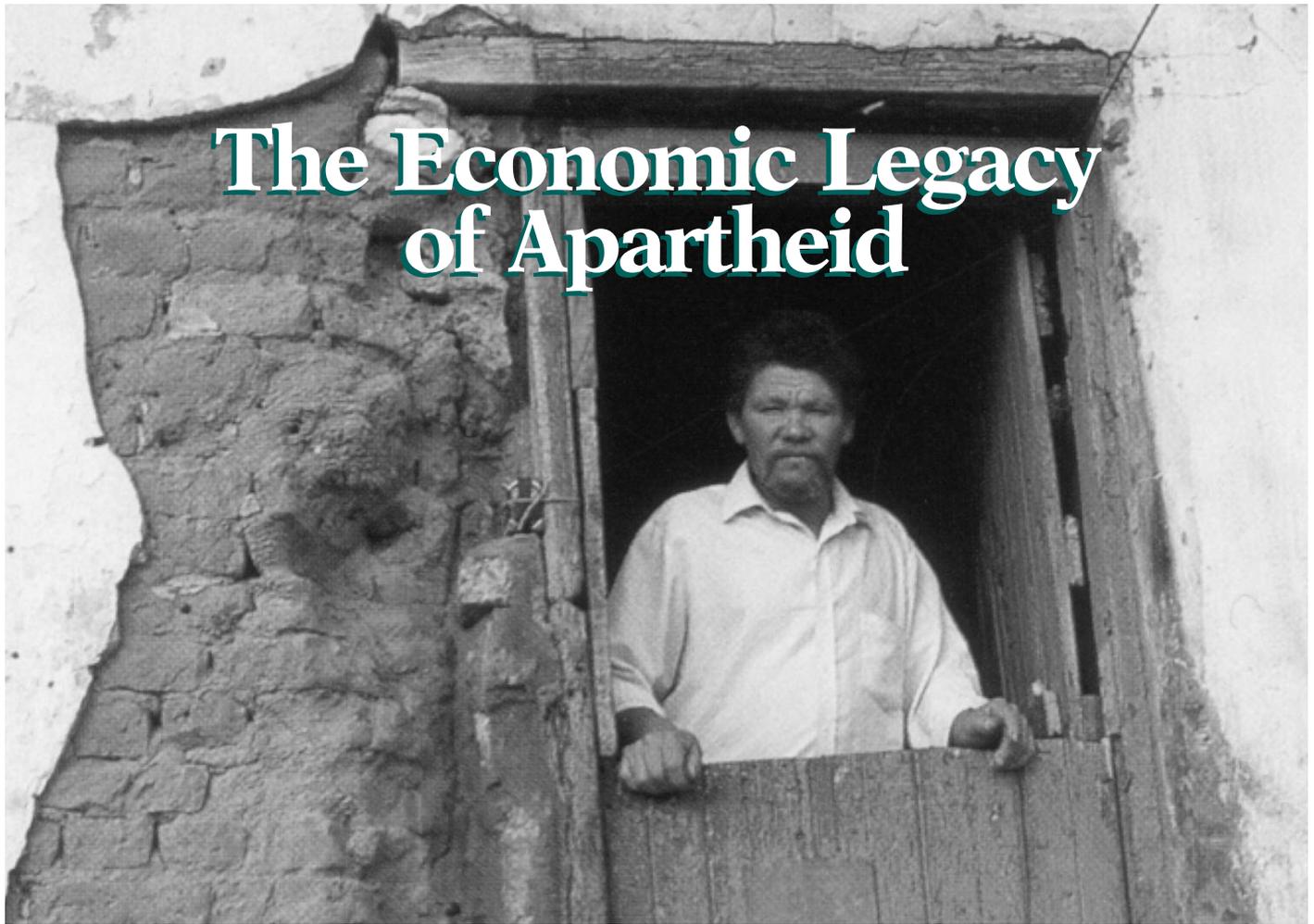


The Economic Legacy of Apartheid



John Shingler

SOUTH AFRICA'S NEW POLITICAL leaders confront a difficult situation. They govern a country which is ostensibly normal, but where in fact much of the economic structure of apartheid remains intact.

Agreeing to Differ?

Many people—in South Africa and abroad—believed that bringing apartheid formally to an end would be like waving the Fairy Godmother's magic wand, turning the pumpkin immediately into a carriage. Not so. In one of the great *volte faces* of this century, apartheid was declared legally dead—but that remark-

able and inspiring act did not overcome the terrible problems which apartheid created. The harsh reality facing South Africa's new rulers is that apartheid contributed to the forging of a legacy which will take generations to overcome.

In the years leading up to the 1994 election a broad consensus emerged on three issues: apartheid was a catastrophe; South Africa's various peoples could be brought into a "rainbow nation"; and the apartheid state should be replaced by a law-governed constitutionalist order. But this was basically a *political* consensus; it did not include a fully articulated, shared *economic* vision of the country.

The platform from which Nelson Mandela now governs rests on three pillars: a constitutional settlement; a cultural compromise; and a problematic and contested economic accommodation which leaves much of the *status quo ante* intact.

The first two pillars need not detain us. The constitutional settlement was based on extensive negotiations between politi-

cal leaders who were steeped in the idea and art of compromise and realised that, at the end of the day, they had to leave something on the table for each other as well as the rest of the country. The cultural compromise—epitomised in the claim and hope that South Africans are "the rainbow people of God"—has its roots in the dreams of Christian brotherhood and Enlightenment egalitarianism which underpin the ideology of the African National Congress (ANC), and which ultimately may be acceptable to Afrikaner nationalists, Zulu exceptionalists and supporters of Black consciousness alike.

It is the third pillar, the tacit agreement to modify only slowly an economy built upon racially based privilege and exclusion, which is the source of the challenge confronting the Mandela government—that is, to define and establish an economic vision which will inform and inspire all South Africans as they seek to overcome the legacy of apartheid.

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A Useful Comparison

One way of putting this challenge in international perspective is by comparing South Africa to Canada. Both countries are colonial in origin, settled initially by the Dutch and the French, respectively. It was the British, however, who gave them their basic founding features in the Nineteenth century. Both overwhelmed native peoples and imposed European institutions and practices on them. Both started and remain active in the extraction and exploitation of natural resources. Both have developed sophisticated modern systems of administration, financial services, research and development, transport and communications, manufacturing, and resource development.

Since World War II, however, the two countries have followed increasingly divergent paths. Canada has become prosperous and egalitarian, and ranks at the top of recent UN surveys. In contrast, South Africa is demonstrably unequal and, widespread reports of its wealth to the contrary, very poor.

Elementary data speak for themselves. Canada's population is 29.6 million and South Africa's is 41.2 million, yet their respective GDPs in current US dollars are \$566 billion and \$134 billion. Their per capita GDPs are thus concomitantly disparate at \$19,100 and \$3,240. Canada's unemployment hovers around 9.5% whereas South Africa's *official* rate is in excess of 30%. Canadians think in terms of declining house prices and housing starts, whereas South Africa has a homeless population variously estimated at between 8 and 12 million people. Canada has well over 200 post-secondary educational institutions, South Africa perhaps 40. One is the darling of the G7, and the other, with the waning of the euphoria following the 1994 election, draws increasing criticism from international commentators.

Why so great a discrepancy? In the case of Canada, its success can in large part be attributed to its proximity to the United States—as a source of capital and as a market; but its inclusive economic and social policies have also been very important. In the South African case, the absence of either a large neighbouring market or major source of capital were

factors—but in the 50 years since World War II the implementation of the policy of apartheid has been central to South Africa's malaise.

I remember as a boy the shocked atmosphere in my school's playground the day after the election which brought the Afrikaner nationalists to power in 1948. Within months the country was plunged into tension and conflict as the new cabinet pushed aggressively ahead with its programme of racist legislation, and the country sank into its "forty lost years" as Dan O'Meara called them in his

recent book by that title. As things turned out, I was to spend three of those four decades abroad—a political émigré in an exile only partly of my own making.

If South Africa, in the years following World War II, had pursued an open political and economic strategy—educating its population generously and with vision, training the labour force, welcoming fresh ideas and modern technology, and exploring new opportunities—perhaps it might today have been an African "Lion" comparable to the Asian "Tigers" of the Pacific rim.

Why this turn to exclusion in South Africa at a time when the rest of the world

was embracing the more generous outward-looking vision of the post-World War II era? A grasp of its historical background is essential to an understanding of what the great historian C.W. de Kiewitt called "the anatomy of South African misery".

The Roots of Apartheid

Prior to the discovery of diamonds in 1867 and gold in 1884, and the opening of the Suez Canal in 1869, South Africa's place in the British-dominated global economy of the day was limited to the provisioning of East-India men, tea clippers and whalers at Cape Town, and to a marginal international trade based on the export of animal products (ivory and wool) and the import of manufactured goods (tools and guns).

The rapid expansion of its mining industry in the late 19th century brought South Africa into the modern world in a strangely perverted way. Because the emergence of South Africa's economy coincided with the rise of European

racism and English jingoism, it was relatively easy for the dominant Whites—owners and workers—to put in place a system of White supremacy based on the exclusion of native Blacks from almost all skilled work—a policy variously called "the colour bar" or "job reservation".

The long confrontation between the Boers and the British culminated in the Anglo-Boer War of 1899-1902. The resulting turmoil coincided with the urbanisation and impoverishment of the Afrikaners, a process which laid the foundations of a political revolution in South Africa in the first half of the 20th century—the harnessing of Afrikaner nationalism to racial exclusiveness and domination.

This development has to be seen in the context of the prevailing Anglo-South African hegemony in the economy, a situation against which the Afrikaner intelligentsia led a White working-class revolt. Banking, insurance, the civil service, the professions, education, mining, manufacturing, wholesale and retail commerce, and much of agriculture was in the hands of English-speaking South Africans—most of them of British descent and unabashed in their contempt for Afrikaners.

The South African government of the 1920s, in an attempt to protect the nascent manufacturing sector which had emerged during World War I, introduced an import-substitution policy which was kept in place until the final GATT round and South Africa's admission to the World Trade Organisation. This protectionist outlook coincided with the so-called "civilised labour policy" introduced at that time. These two policies reflected the country's fortress mentality and basically performed the same function—protecting White South Africans from the competition of others, whether foreign workers abroad or Black workers at home.

The National Party came into office in 1948. In introducing the slogan and practice of apartheid it built upon the oppressive and complementary strategies of preceding generations—White supremacy and segregation. These policies were in fact largely British in origin. Parenthetically, note that there is a tendency in the analysis of South Africa to blame all the misery on the Afrikaners. But this is inaccurate; it was the British who laid the foundations of the system which the Afrikaners later inherited and, in their turn, consolidated.

The goals of the fervent Afrikaner nationalism which led to the 1948 electoral victory were twofold: to contain

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English-speaking capital and, by means of apartheid (in an intensely interventionist use of state power), to secure the interests of the White working class.

Afrikaner nationalism sought, through the development of state capitalism, to circumvent the English-speaking monopolies in finance, insurance, mining, manufacturing, and the upper reaches of the civil service. This strategy included the establishment of partially autonomous capitalist institutions, called “parastatals”, which were funded from the public purse and provided not just political power but economic opportunity and security to Afrikaners. ISCOR (Iron & Steel), ESKOM (Electricity), TRANSNET (the transport system), SASOL (oil from coal), ARMSCOR (armaments), to mention just the main vehicles, entrenched the position of this state-created and state-supported technocracy. Afrikaner capitalist institutions in the private sector, such as SANLAM (life insurance) and VOLKSKAS (banking), also played an important role in the emergence of the new Afrikaner élite.

Apartheid also addressed the perceived threat to White (largely Afrikaans-speaking) workers by competition from Black labour. It regulated virtually every aspect of Black participation in the economy—residence and ownership, occupation, education and training, health and welfare. It also excluded Blacks from the political arena which was by then an exclusive White preserve.

Apartheid thus brought into existence a class of privileged and protected White workers and managers; it turned a largely Afrikaans-speaking White working class into a middle and upper class of bilingual, bicultural South Africans, thereby widening and entrenching the great racial divide in South Africa.

By the late 1980s, however, after 40 years of apartheid giving them every advantage, Afrikaners as a group were willing to forsake the nationalism and abandon the political goals and symbols of their parents and grandparents. A remarkable social transformation had by then taken place. The political vehicle of apartheid had been so radically successful in its goal of protecting Afrikaners that they could now afford to jettison the very vehicle which had nurtured them.

They were willing to abandon their political position and to focus their energies almost exclusively on the preservation and promotion of their economic interests outside the public sector. The constitutional settlement and cultural compromise, with its concomitant economic accommodation, are clear evidence of this willingness to retreat from the political arena and to focus on the economic sphere.

What led to this extraordinary change, and what are its implications for governance and development in South Africa?

The Rise and Fall of Apartheid

The years between 1948 and 1990 were a roller-coaster ride for South Africa. Domestically it became mired in conflict and ultimately paralysed; internationally it became a political pariah, a social outcast and an economic laggard. What had been introduced so dogmatically in the

global economy, as the government failed to respond to the emergence of highly competitive technology-based export economies in Europe and Asia. Given its parochial, ethnocentric view of the world, the narrowly focused Afrikaner political élite had no notion of the economic problems it was setting up for future generations of South Africans.

As apartheid was introduced and consolidated in the first decades of Afrikaner nationalist rule, South Africa ignored developments in the global economy while Europe and the Asian Tigers became increasingly competitive across a wide range of manufacturing activities. Despite a brief spurt of exceptional growth in the 1960s—a phenomenon that was shared by many other countries at the time—the South African economy expanded only hesitantly and far less vigorously than might have been the case with more liberal international trade and domestic free-market policies.

By the end of the 1970s, government appointed commissions of inquiry led to the lifting of some restrictions on Blacks, paving the way for both the unionisation of Black workers and the abolition of the pass laws—the severe restrictions on movement and settlement against which Black political leaders had battled for a century. These steps were a recognition that the economic and social forces leading to industrialisation and urbanisation were relentless, despite the attempts of the apartheid social engineers to prevent and even reverse the process.

These reforms, introduced some 30 years after the inception of the apartheid era, reflected a defection by Afrikaner intellectuals from the goals and ideals of Afrikaner nationalism and concomitantly a partial abandonment of apartheid.

With the banning and subsequent exile of the ANC in 1960, a variety of local initiatives saw the emergence of Black resistance movements to apartheid, especially during the 1970s and 1980s. These included a Black trade-union movement under a new labour leadership which established the Congress of South African Trade Unions (COSATU) in 1985. After three generations of exclusion, Black labour had emerged as a major economic and political force. Within a few years, COSATU became an important factor in South African politics—essentially representing ANC ideas at the union level.



South Africa: An emerging Lion?

1950s and enforced so tyrannically in the 1960s, started to falter in the 1970s and by the 1980s was in uncertain and disorderly retreat against a background of desperate state repression and increasingly violent popular resistance. A key to understanding South Africa's evolution over the past half-century is to look at its economic development and the related social changes which eventually overwhelmed apartheid.

South Africa's protectionist policies (international and domestic) contributed to the deterioration of its position in the

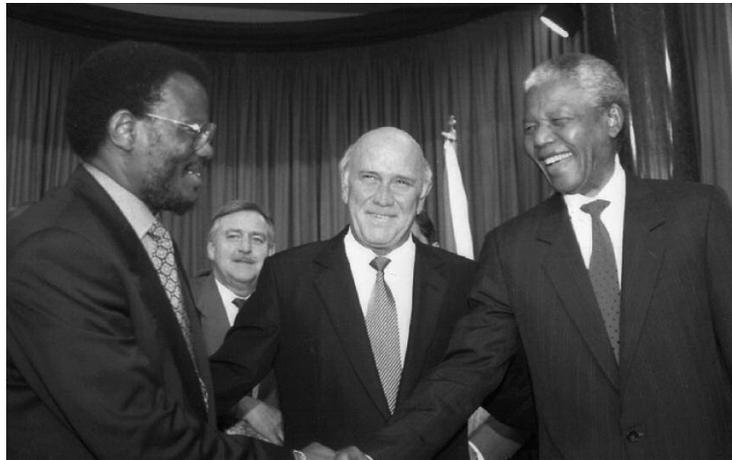
In 1990, President F.W. de Klerk unbanned the ANC and ordered Nelson Mandela's release. These two actions did not take place in a vacuum, but reflected the national and international changes in which South Africa was caught up. Domestically, many apartheid laws had either been repealed or were being ignored; the labour force became increasingly Black as Whites either moved up the ladder or fell through the cracks. Internationally, the sanctions campaign reached a new intensity. At this juncture the Soviet Union collapsed and the ANC lost one of its strongest international allies. With the end of the Cold War, so ended the fear (which seems so absurd today) that South Africa would become a Marxist-Leninist dictatorship, a client state of the Soviet Union. Mr de Klerk took the great leap hoping that his bet was right—that the ANC would abandon the armed struggle policy, which it had followed with scant success and little effect since its banning in 1960, and instead sit down to talk a deal. He was proved correct.

The ANC, which had advocated the almost complete nationalisation of the South African economy, and was apparently dominated by its socialist wing, had during its exile years seen the failures of socialism at first hand. In the decade of secret contacts and “talks about talks” which led up to the negotiated settlement of the 1990s, the ANC economists were taken in hand by the captains of South African capitalism and introduced to the emerging orthodoxies of the 1980s: the free market, privatisation, balanced budgets. The economic accommodation was at hand.

During these years of ideological retooling, however, the ANC maintained its alliance with the South African Communist Party and COSATU. And as the ANC leadership continues to come to grips with South Africa's limited international competitiveness, it is clear that this alliance will come under increasing strain. The recent statements of Sam Shilowa, COSATU's leader, point to the prospects of a showdown between an ambivalent ANC leadership and its more militant allies in the unions. In the long run, protectionism worked for neither the embattled minority of Afrikaners nor the Whites as a whole. It is unlikely to work for the new South Africa either.

By the middle and late 1980s, many people predicted that the country would explode in a “bloodbath”. I would note that it was not unusual for commentators to be overwhelmed by their own metaphors as they struggled to come to terms with South Africa's complexity. The literature of that period was full of apocalyptic visions of revolution and civil war; but instead of the anticipated holocaust, a negotiated settlement led to a peaceful transfer of public authority in an election which captured the world's attention and admiration.

To sum up, a fortunate conjunction of factors made change possible: apartheid as an experiment in social engineering failed catastrophically; the White minority realised that it could no longer govern the country except as a besieged fortress, and then only briefly; international criticism and sanctions were intensifying; the Soviet Union could no longer serve as a strategic ally and socialist mentor of the ANC; and Nelson Mandela was able to initiate and pursue a compromise strategy from prison, despite the misgivings of radicals within the ANC leadership. And perhaps most fundamental of all was the



The handshake of hope: paving the way for South Africa's first all-race elections.

fact that apartheid had transformed the “poor whites” of the 1920s into a comfortable middle class, in some cases a wealthy élite, which could rely on bank accounts, rather than apartheid laws, for protection against Black competition.

A Hybrid Economy

The South African economy thus developed uneasily under the policies of segregation and later apartheid into a unique edifice in which a racially exclusive state-capitalism co-existed in uneasy partnership with a tightly circumscribed quasi-free-market counterpart. This complex

hybrid—in some sectors highly efficient, in others unproductive and incompetent—is today undergoing changes that are sometimes welcomed and often resisted, but are crucial to South Africa's future prosperity.

Shifts in the relative strength of the different sectors reflect the changes in the economy of the past 20 years, but through it all runs the unique character of South Africa—the great racial divide. Management, corporate leadership, financial services, the professions, the print media, the academy and, to a lesser extent since the 1994 election, the civil service, are overwhelmingly White. In contrast, labour in agriculture, mining, manufacturing, transport, wholesale and retail commerce is almost entirely Black. The problems confronting South Africa's developing economy are in one sense typical; but in another sense they are unique. It is against this backdrop that we turn to the question of change and the economic condition of the Blacks.

The *status quo* cannot be allowed to continue intact. Changes are not just desirable—they are essential. In seeking to show the challenges which South Africa faces, we look briefly at three salient areas: international investment; the financial sector; and privatisation.

- *International Investment.* International direct investment in South Africa since the 1994 election has been less than hoped for or anticipated. Archbishop Tutu, who assumed moral leadership of the sanctions campaign in the 1980s, has found that, whereas his earlier pleas for disinvestment worked (perhaps for reasons that he did not fully grasp, such as the self-interest of

the governments of Australia, whose coal exports benefitted considerably during this period, and Canada, whose “maple leaf” coin gained something of an advantage over the “krugerrand”), his calls to reinvest, like those of President Mandela and Deputy President Mbeki, have been ineffective.

The very factors that contributed to the demise of apartheid—such as the collapse of communism—have also provided alternative investment opportunities in Russia and Eastern Europe. South Africa's new leaders are learning the hard way that investment decisions are made around

issues like stability, productivity, efficiency, and return on capital. South Africa has to compete with economies whose labour forces, infrastructure and social climate are every bit as competent and attractive as its own.

There is an irony in all of this: an instrument (sanctions and disinvestment) which contributed to the collapse of apartheid now stands in the way of South Africa's reconstruction and development. It is perhaps worth noting that a vigorous and uncompromising critic of apartheid such as Helen Suzman, the great Progressive Party parliamentarian, had precisely these apprehensions about their long-term consequences when she opposed sanctions. You did not have to be in favour of apartheid to be strongly opposed to sanctions.

● *The Financial Sector.* In the financial-services sector, South Africa is clearly on a par with its counterparts in the North Atlantic world. Its infrastructure and communications technology are sophisticated and modern. But this development has again been exclusive. The major financial institutions today remain entirely in the hands of a White élite. This exclusiveness does not mean that the sector is racist or acting against the interests of the population as a whole; it does mean that interesting and challenging careers in this area are not yet enjoyed by Blacks in any substantial numbers, and that an important element in the country's economic structure is not demographically representative.

The Financial Services Board (FSB), which regulates the banks, insurance companies and pension funds, is comprised of seasoned civil servants—mostly Afrikaners appointed in earlier years. The FSB oversees 50 banks, an equivalent number of insurance companies, and nearly 16,000 pension plan contributors in South Africa with accumulated assets of approximately \$100 billion (US). Of the latter, almost all are of a scale and size where the asset management is given over to the larger institutions—banks and insurance companies. Again, these serve a primarily White clientele under a White leadership.

Like the financial-services sector, the Johannesburg Stock Exchange (JSE) provides a sharp look into the South African economy. The JSE is capitalised at about \$250 billion (US). It trades in the shares of some 640 public corporations, of which less than 20 are under Black ownership or

control. The JSE regulates the activities of just under 50 stock brokerage firms, only one of which is Black, and that was established only in 1996.

As it is with the private sector, so it is with the most important institutions of public policy—the central bank and the Ministry of Finance. The South African Reserve Bank, established after World War I, has a reputation for cautious competence. A succession of Governors through the 1970s to the present—de Kock, Brandt and now Stahls—are seen as disciplined and thoughtful. This élite, like central banks everywhere, is closed, distant and tends to be above the fray of “mere” politics. Not surprisingly, this sta-

● *Privatisation.* The activities and services which were developed in the parasitals between the 1920s and the 1970s were essentially a set of Afrikaner fiefs. Proposals to privatise these started in the 1980s, at the same time as the movement away from statism occurred in Latin America and Europe. But some within the ANC leadership believed that it was too convenient—it redounded to the advantage of the same élite which was closing down these institutions or shifting them into corporate hands.

The debate on privatisation is an integral part of the disagreement on the character of the economy—above all on the respective roles of state and market. The ANC-led cabinet tends to support

privatisation as a way of bringing capital into the country, reducing the debt and the deficit and as well as cutting costs and improving efficiency in the delivery of services. However, this view is not shared by the leadership of COSATU whose pronouncements through the course of 1995 and 1996 have been unequivocally opposed to privatisation—under whatever name.

Opening Up the Oligarchy

Today, the economic élite of South Africa is far from the exclusively English-speaking domain it was in 1948 when the Afrikaner nationalists came to power with their policy of racial socialism. But that élite has remained almost exclusively White. Though the

Afrikaans and English-speaking business leaders have in recent years taken a variety of steps to address the exclusion of Blacks from the private sector, with some honourable exceptions these efforts have been very limited and very late.

Precisely because they are so few in number, the small new business leadership can virtually be mentioned by name. Among the older generation, Sam Motuenyane is the doyen of Black businessmen. Starting in the 1960s, when discrimination against Blacks was in some ways at its worst, he built a business in the retail sector, his career an epic of courage and determination. Another leading figure is Dr Nthato Motlana; initially doctor to the Mandelas, he moved from medicine to business and is now focused almost entirely on finance. *Enterprise* magazine, a new monthly, reflects the interests and describes the activities of this emerging Black business class in South Africa. But the group is



tus does not sit well with ANC activists who feel they must be, and must be seen to be, in control of all aspects of South Africa. The doctrine of Reserve Bank independence, especially when it is in the hands of an exclusive White priesthood, makes some of the more radical members of the ANC very uncomfortable, and may well be a source of conflict in the future.

South Africa has had three Ministers of Finance since 1994, only the most recent of them Black and a member of the ANC. The initial appointment of Derek Keyes—a successful executive with no background in politics—was reassuring to domestic and foreign observers, and his resignation shortly after the 1994 election was unexpected and disturbing. Chris Liebenberg, CEO of Nedbank, followed Keyes, only to resign early in 1996. His replacement by Trevor Manuel has been met with snide comments and a depreciating rand. International investors, particularly currency speculators, remain jittery.

minuscule in comparison with its White counterpart.

In 1988, the Consultative Business Movement was founded under the leadership of Kennedy Maxwell of Johannesburg Consolidated Investments (JCI). It has attempted to play an important role in the transition that is necessary if South Africa is to flourish. Its 1994 booklet, *Building a Winning Nation*, was based upon extensive consultations between government, labour and business, and was aimed at contributing to the self-transformation of South African business.

In tandem with this development it is noteworthy that JCI has been “unbundled” by Anglo-American (a gigantic conglomerate founded and run by the Oppenheimer family and generally regarded as “South Africa Inc.”) and is undergoing a transformation of leadership. In June 1996, Cyril Rhamaposa, who was an important leader in the nascent union movement in the 1970s and played a major role in the negotiations of the early 1990s, announced his shift from politics to the private sector. Today he is a dominant figure in JCI.

That Blacks play an important role in the economy is obvious—it is also obviously a markedly subordinate role. Blacks constitute the mass of miners and of agricultural and industrial workers. They are strikingly absent in the boardroom, the executive suite and the professions. Black economic empowerment therefore is about the access of ever larger numbers of capable, trained Black men and women to positions of leadership. In short, South African business and the South African business élite must be transformed.

The Challenge of Economic Transformation

Can the leaders of the new South Africa achieve the same success in the economic arena which they achieved in striking the constitutional settlement and the cultural compromise? Over the next 30 years South African leaders and society will have to address a wide range of issues as they attempt to participate effectively in the highly competitive global economy of the 21st century.

South Africans will have to engage in business while endlessly examining and criticising that same activity—namely,

the manner in which they will create, pursue and share wealth. Is it to be on the basis of the market or regulated by the state, collectivist or individualist? South Africa will have to correct its skewed patterns of wealth and income, expanding and transforming the country's business élite from its traditional White enclave into a multi-racial entrepreneurial leadership open to the majority—Black, poor and frustrated. The government will have to reduce its own bloated civil service while at the same time Africanising it. The educational system will have to produce trained professionals and managers, and help mould a disciplined, industrious and



Finally... a voice for Nelson Mandela.

thrifty labour force. At the same time, South Africa's leadership will have to take steps to preserve and protect the country's fragile and damaged natural environment. This issue is a particularly difficult one because it, like so much else in South Africa, has a racial element. To some extent the concern with the environment is a White issue, often involving a tension between the claims of conservationists and the search for Black advancement.

All these changes must be achieved while the country attempts to catch up with the technological and communications revolution which bypassed it over the last half-century when, tragically, the energy of most South Africans was focussed on apartheid—attacking it, defending it, or just endlessly debating it.

For those of us who were appalled by apartheid and who participated in the disinvestment debate of the 1980s, a new challenge has emerged now that sanctions are behind us: to seek, find and act upon economic opportunities in South Africa—opportunities which serve not only our own interests but contribute to the reconstruction and development of a country generally recognised as being crucial to sub-Saharan Africa as a whole.

Debating and Making the Future

There is, unsurprisingly, a general consensus that the goal of the South African economic system is a prosperous South Africa in which poverty has been eradicated. The disagreement is about how this goal will be attained. The Reconstruction and Development Programme (RDP) brought out by the ANC was generally accepted, but itself was so short on specifics as to be innocuous.

South Africans are now engaged in debate about the economic accommodation which was cobbled onto the constitutional settlement and the cultural compromise. Skewed though it is, the economy is firmly in place. It does seem to provide a base from which to address the country's challenges. How much tinkering, manipulation, restructuring and making-over can it take? How much can it deliver—either reformed or unreconstructed?

That the economy is a bastion of white minority privilege is not seriously contested. But there is a conundrum. Is South Africa's economy capable of self-transformation through some process attendant upon its own growth and development? Or is intervention by the state required? And if intervention is needed, how much and in what areas?

The new Black political élite is in a difficult position: clearly “office” and “power” in South Africa today are not synonymous. For the foreseeable future the White élite will exercise considerable influence, even where it does not hold office or exercise power. To remove that élite, or to attempt to subordinate it, will undoubtedly cause grave harm to the economy. President Mandela and his colleagues know all this very well. And they are governing the country—and their own actions—accordingly. ♦