

By Johan Fourie



ECONOMY

# The rules that keep millions poor

People with access to property rights, the rule of law and who can participate freely in a market economy are most likely to prosper. However, many South Africans still don't have access to our country's inclusive institutions.

much of the focus on poverty alleviation in South Africa is, understandably, on the post-apartheid era. But sometimes it is worth taking a long-term view. One of the most important contributions of the last two decades to the literature on economic growth is that institutions matter. Social scientists have, of course, posited for a long time that the freedom associated with democracy, property rights, rule of law and a free press is critical to the success of a market society. But these ideas could only relatively recently be tested empirically, with the uncovering of new data sources and development of new methods.

Daron Acemoglu, Simon Johnson and James Robinson in *Reversal of Fortune: Geography and Institutions in the Making of the Modern World* say it was the type of institutions established by Europeans when they colonised large parts of the world that explains whether countries today are rich or poor.

In places where Europeans could settle – places without malaria, for example – they established inclusive institutions, like property rights and the free market.

In places not amenable to European settlement, like most of Africa, they set up extractive institutions, rules that benefitted only a small elite. Today's income distribution across the world, they argue, reflects these colonial institutions.

In a new paper, Dieter von Fintel and I apply this theory to the eastern half of SA over the last two centuries. Our result? Things are far more complicated than the binary world of extractive versus inclusive institutions.

When the first Europeans migrated into SA's interior in the 19th century, they didn't enter territories in a stable Malthusian equilibrium. Disrupted by resource constraints at the beginning of the 19th century, the Bantu-speaking groups that inhabited this region had just entered a period of intense warfare, decimating much of the country, which made it easier for the Voortrekkers to migrate into. The Mfecane wars locked survivors mostly into the high-rainfall, but rugged and inhospitable regions of the country.

The areas that the Voortrekkers settled in combined with the land these settlers later annexed through various Land Acts became known as 'white areas'. These areas developed as a result of the 'inclusive' institutions established to benefit whites. Natural resources like diamonds, gold and access to temporary migrant black labour from across southern Africa, helped. But it was ultimately the freedom to vote and own property, the rule of law and a market economy – the exclusive use of the inclusive institutions – that allowed white South Africans to prosper.

The rugged regions that black South Africans first inhabited or were pushed into, were designated black homelands (apart from Basutoland and Swaziland, which became independent countries). These regions were too small to accommodate the massive forced relocation that

occurred through much of the 20th century, and also suffered internally from poor, extractive institutions: economic and political rights that favoured chiefs or headmen. Black South Africans were thus exposed to extractive institutions in both 'white regions' and homelands.

That changed in 1994 when democracy expanded the 'inclusive' institutions of white regions to include black South Africans. Anyone in SA could own land, vote, and be treated equally by the law, with one exception: those living in former homelands. Here the former extractive institutions favouring the chiefs prevailed and, in some cases, actually worsened. In his new book, *Getting it Right: A new economy for South Africa*, University of the Free State economics professor Philippe Burger argues that in many cases, these institutions became even more extractive: "legislation passed by the ANC government [has] strengthened the powers of traditional chiefs and continues to undermine the tenure rights of the population."

Black South Africans have thus seen a great divergence in their living standards in the last few decades: Those with access to good institutions, as Acemoglu, Johnson and Robinson predicted, have seen their living standards improve; those residing in regions with extractive institutions have remained poor.

The one difference between their study and ours is that SA has one mitigating factor that has reduced this divergence: open borders. South Africans can now choose where they want to live and many have voted with their feet: Migration to the cities is now the best way to escape poverty in SA.

But migration can only do so much. If we are serious about addressing poverty, the extractive institutions of the former homelands should be priority number one. This is recognised by the recent *Report on Presidential Advisory Panel on Land Reform and Agriculture*. They spell out, for example, concerns about the Ingonyama Trust Act of 1994, which vests ownership of 2.8m hectares of KwaZulu-Natal in the hands of a sole trustee, the Zulu king. The report recommends that the Ingonyama Trust Act be repealed: "This Act has perpetuated the existence of KwaZulu-Natal as a homeland within a unitary state 25 years into a new democratic order."

The key, though, is to replace these extractive institutions with inclusive ones. This seems to not be the plan, unfortunately: "Government should immediately assume responsibility and custodianship of the Trust land and administer it on behalf of its citizens." Although the idea is to grant secure tenure rights, tenure is not the same as ownership.

The lesson from history is that people with access to inclusive institutions – property rights, the rule of law, democracy, free participation in a market economy – are the ones most likely to prosper. It's time to give those rights to more than a third of South Africans 25 years after the rest of us have been able to benefit from it. ■

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