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Op-ed

THE MISSING NUMBER IN SOUTH AFRICA'S ECONOMIC DEBATE

By Daryl Swanepoel

Why does South Africa's economy feel so much worse than many of the headline statistics suggest?

It is a question that frustrates policymakers, economists and ordinary citizens alike. We are told that the economy continues to grow. Inflation remains under control. The financial system remains resilient. But millions of South Africans feel as though they are falling further behind.

The answer lies in a number that is almost entirely absent from the public debate. Population.

Since the mid-1990s, South Africa's population has increased by more than 50 per cent. That single fact changes how we should understand almost every economic statistic the country produces.

This is not an argument against population growth. Population growth is neither inherently good nor inherently bad. In economies experiencing strong investment, rising productivity and rapid job creation, a growing population can become a powerful economic asset. More workers create more output. More consumers expand markets. More taxpayers strengthen the state's fiscal capacity. But the opposite is equally true.

When economic growth remains modest for prolonged periods, every additional citizen increases the demands placed upon the economy. More schools must be built. More clinics must be staffed. More houses must be provided. More roads, electricity networks, water infrastructure and public transport become necessary. Above all, more jobs must be created.

That has been South Africa's experience.

The economy has continued to grow. But it has not grown fast enough to generate the jobs, incomes and opportunities required by a rapidly expanding population. This is why aggregate GDP can be misleading.

GDP measures the size of the economy. It does not tell us how much of that economy is available to each citizen. That is why economists also examine GDP per capita. Viewed through that lens, South Africa's economic story looks very different.

For much of the first two decades after democracy, economic growth outpaced population growth and real GDP per capita rose steadily. Living standards improved, even though many challenges remained. But over the past decade that relationship changed. Economic growth weakened while population growth continued. As a result, GDP per capita stagnated and, in some years, declined.

People are therefore not imagining their frustration. They are experiencing what economists describe as a per-capita squeeze.

The economy has continued producing more output than before, but not enough more for each South African to enjoy a meaningfully larger share of it. The available economic space per person has stopped expanding.

The consequences reach far beyond household income.

Weak per-capita growth intensifies competition for jobs. It places increasing pressure on schools, hospitals, housing, municipal services and public finances. Even where government increases spending, citizens often experience little visible improvement because those additional resources must be spread across a continually growing population.

Understanding this changes how we think about South Africa's economic challenge.

Public debate often assumes that the answer is simply to achieve economic growth of five, six or even seven per cent a year. Certainly, growth at those levels would transform the country's prospects.

The difficulty is that economies at South Africa's level of development rarely sustain such growth over extended periods. The experience of upper-middle-income countries shows that growth closer to four per cent is already an ambitious target. Expecting consistently higher growth requires exceptional levels of investment, productivity growth and export expansion that relatively few countries manage to achieve over long periods. That reality forces us to confront an important truth.

If exceptionally high economic growth is unlikely to be sustained, then prosperity cannot depend on growth alone. The other side of the equation is the rate at which the population continues to expand. This is not about blaming population growth for South Africa's economic difficulties. The Inclusive Society Institute's report is explicit that insufficient investment remains the principal constraint on stronger economic performance. Population growth does not cause weak growth. It amplifies its consequences by spreading limited gains across an ever-larger population.

The Institute's own modelling illustrates the point. Holding employment creation constant, it estimates that if South Africa's population had grown more in line with the average upper-middle-income country, today's expanded unemployment rate would have been several percentage points lower. The same number of jobs would have produced better employment outcomes simply because fewer new entrants would have been competing for them.

There is, however, encouraging news.

South Africa's demographic transition has already begun. Fertility rates have fallen and population growth is gradually slowing. That is a welcome development, because it means future economic growth will translate more readily into rising living standards. The challenge is that the transition remains incomplete. Population growth continues to exceed that of many comparable upper-middle-income economies, meaning the economy still faces greater demographic pressure than many of its peers. The implication is both sobering and hopeful.

South Africa's long-term prosperity will depend on two complementary developments.

- The first is stronger investment-led growth that lifts the economy closer to its productive potential.
- The second is the continued moderation of population growth through the country's ongoing demographic transition, allowing the gains from that growth to be shared among a more slowly expanding population.

Neither, on its own, will be sufficient.

Together, however, they offer the most realistic path towards sustained improvements in employment, incomes and living standards.

That is the missing equation in South Africa's economic debate. Not simply how fast the economy grows. But how many people that growth must support.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute. This article forms part of the Institute's True South Africa Evidence Series.