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Op-ed

WE ARE MEASURING SOUTH AFRICA'S ECONOMIC PROBLEM INCORRECTLY

Why economic growth alone does not explain South Africa's unemployment and inequality crisis

By Daryl Swanepoel

South Africa's economic debate rests on a proposition that has become so familiar that we seldom interrogate it: the economy is growing too slowly. That is unquestionably true. But it may also be an incomplete diagnosis.

Economic performance is generally discussed in terms of GDP growth, investment, employment creation and productivity. Population growth tends to sit somewhere else in the policy architecture, treated primarily as a demographic or social-policy consideration.

But an economy does not grow in isolation from the population it must support. What ultimately matters is not simply whether GDP or employment increases, but whether productive economic opportunity expands sufficiently rapidly to absorb the number of people requiring it. Seen through that lens, some familiar South African numbers begin to look rather different.

In 1994, South Africa had a population of approximately 41.9 million. By 2024, it had reached approximately 63 million. The population therefore increased by more than 50% in three decades, at an average annual rate of approximately 1.4%.

There is nothing inherently undesirable about this. A growing population that is educated, skilled and productively employed can enlarge an economy and create a demographic dividend. The difficulty arises when the economy cannot absorb that growth.

To test how much this matters, research undertaken by the Inclusive Society Institute separated the economic and demographic components of South Africa's performance through three counterfactual scenarios.

The first leaves South Africa's actual economic performance entirely unchanged and alters only population growth. Had the population grown at 1% annually from the same 1994 starting point, South Africa would have had approximately 56.5 million people in 2024, rather than 63 million.

Nothing else changes in this scenario. There is no additional economic growth, no additional investment and no productivity improvement. But GDP per capita would have been approximately 11.6% higher simply because the same economy would have been supporting fewer people.

Importantly, even the 1% assumption is deliberately cautious. It is higher than the population growth now being experienced across upper-middle-income countries as a group. Had we used a lower rate, the demographic effect would have been greater still. The 11.6% improvement should therefore not

be read as the outer limit of the demographic effect, but as what emerges from a relatively restrained assumption.

Even on this deliberately cautious assumption, the effect is material. But that finding must also be interpreted carefully. It is also important not to exaggerate what it means. It does not suggest household incomes would automatically have been 11.6% higher or inequality 11.6% lower. GDP per capita measures average economic output, not its distribution. But it does establish something important: population growth materially affected the relationship between the size of South Africa's economy and the population dependent upon it.

The second scenario demonstrates why this cannot become an argument that demography alone is South Africa's principal economic problem. Had the population followed its actual trajectory, but real GDP grown at an average of 4% annually from 1994, GDP per capita in 2024 would have been approximately 66.6% higher than the actual outcome.

Combine 4% economic growth with population growth of 1%, and GDP per capita would have been approximately 85.9% higher.

The conclusion is therefore quite clear. Faster economic growth would have made by far the larger difference. South Africa's central economic failure remains inadequate growth. But that should not obscure the second finding: population growth materially amplified the consequences of that failure. The labour market provides perhaps the clearest evidence of why.

There is a tendency to say that South Africa has failed to create jobs. Strictly speaking, that is not true. Employment increased from approximately 12.1 million in 2001 to 16.5 million in 2023. Millions of additional jobs were created. But over the same period employment increased by 36.6%, while the number of unemployed people increased by approximately 92.4%. The unemployment rate rose from 25.4% to 32.4%.

That is arguably one of the more revealing statistics in South Africa's economic story. The economy was creating employment, but the pool of people requiring employment was expanding much faster.

It suggests that the question we routinely ask - *how many jobs did the economy create?* - is insufficient. The more meaningful question is whether employment creation kept pace with the growth in the number of people requiring productive employment.

This distinction also matters to the inequality debate.

South Africa's extreme inequality is rightly understood through the historical distribution of wealth and opportunity, continuing unequal access to education and skills, structural unemployment and weak economic growth. Demography does not replace any of those explanations. But it can compound them.

When an expanding working-age population enters an economy that cannot create sufficient productive employment, increasing numbers remain without labour income. More people consequently depend on transfers, informal income or household support, while income becomes increasingly concentrated among those successfully participating in the productive economy.

Population growth does not therefore automatically create inequality. Rather, insufficient economic absorption provides a mechanism through which relatively rapid population growth can aggravate an already unequal distribution of income. This has implications well beyond the inequality debate.

South Africa sets economic growth targets without sufficiently relating them to demographic projections. But a 4% growth target cannot be properly evaluated in isolation. Its significance depends partly on how rapidly the population - and particularly the working-age population - is expanding.

The same principle should apply to employment targets. Creating 500,000 jobs is impressive if say 300,000 additional people require employment. It is inadequate if say 800,000 do. The absolute number tells us considerably less than the relationship between the two.

This suggests that demographic projections should become a routine component of economic scenario planning. Growth targets should be tested against projected population growth. Employment planning should explicitly incorporate the expected expansion of the working-age population. The same logic should inform planning for education, healthcare, housing and infrastructure.

There is also a legitimate place for voluntary family planning, reproductive healthcare, education and the economic empowerment of women. This is not an argument for population reduction as an economic policy. But neither is it responsible to pretend that demography has no economic consequences. Every additional person must ultimately be educated, housed, provided with healthcare and infrastructure, and, critically, have access to productive economic opportunity. If the population requiring those opportunities grows persistently faster than the economy's capacity to provide them, the consequences are not theoretical. They appear in unemployment, poverty, pressure on public services and, ultimately, inequality. Recognising that arithmetic is not anti-population. Ignoring it does not make it disappear.

South Africa's problem is neither economic growth, nor population growth considered separately. It is the relationship between them.

For three decades we have largely judged economic performance by asking whether the economy grew and whether jobs were created. Both remain essential measures. But neither tells us whether the economy expanded rapidly enough relative to the number of people it had to economically absorb. That may explain one of the apparent contradictions of post-1994 South Africa: millions more people are employed, but unemployment is substantially worse.

The economy did expand productive opportunity. It simply did not expand it fast enough. And that changes the policy test.

South Africa certainly needs substantially faster economic growth. But the measure of success should ultimately be whether productive economic opportunity is expanding faster than the population requiring it. Until we begin measuring the two together, we may continue debating the right economic problem with only half of the equation.

Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute. This article draws on the Institute's latest research examining the largely overlooked relationship between population growth, economic growth, unemployment and inequality, and argues for demographic trends to be brought more explicitly into South Africa's economic scenario planning.