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Fewer births may spur SA's growth

The country's changing demographics can be positive – but only if there are jobs for the growing, working-age population

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After eight consecutive yearly declines, Japan's birth rate recently hit a new record low — a development that could have huge implications for the world's fourth-largest economy.

Japan's population predicament is so alarming that its prime minister, Fumio Kishida, reportedly said last year that the country "is on the verge of whether we can continue to function as a society".

Japan is not alone in its battle against rapidly slowing fertility rates. Last week, Italy's statistics bureau reported the 15th straight decline in the country's birth rate.

As developed countries grapple with the effects of low birth rates and ageing populations, many have pointed to Africa's youth as a source of its future economic might.

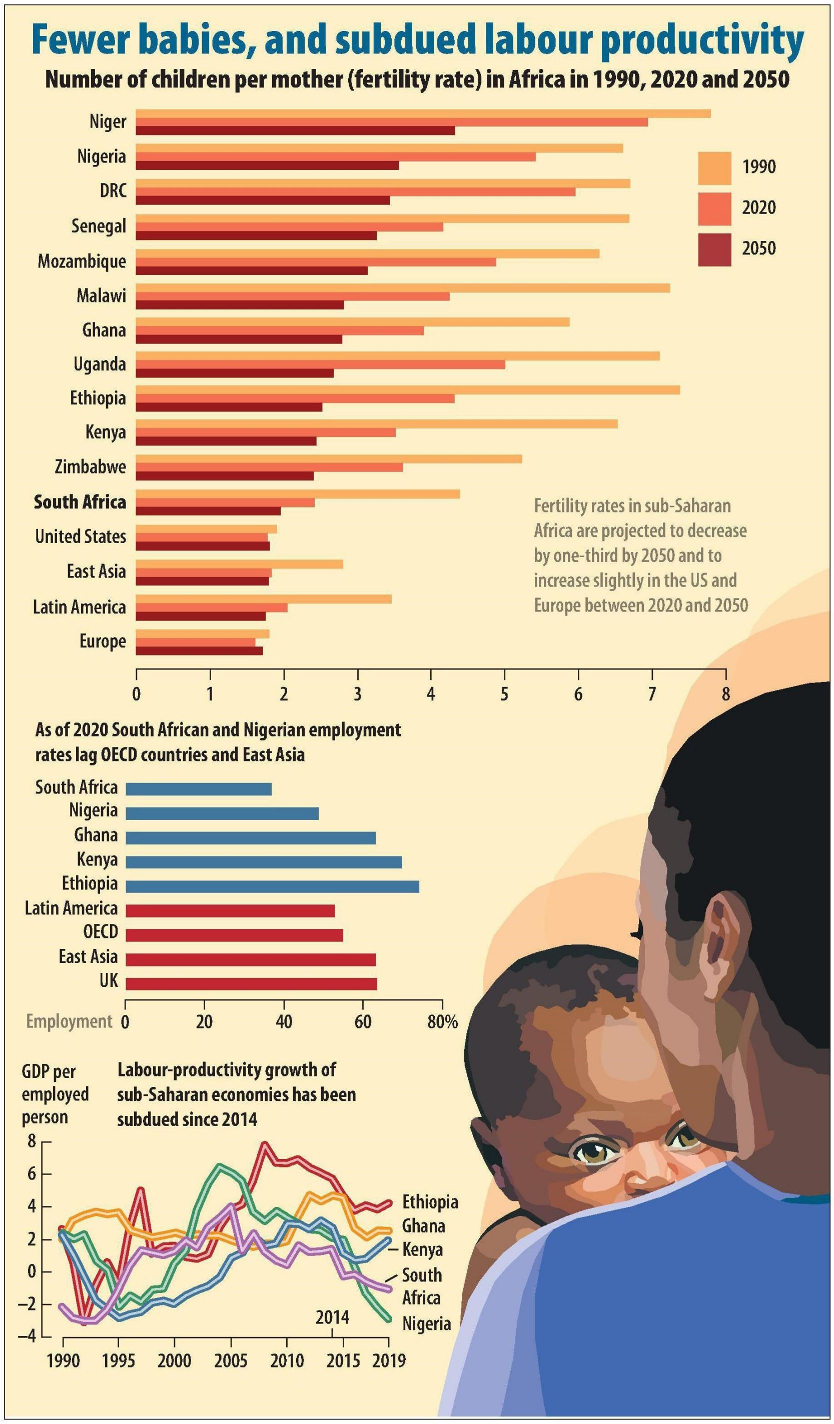
But a number of African countries, including South Africa, are experiencing steep declines in fertility rates. While their economies could suffer in the long run, fewer births could also be the key to growth in the shorter term — if their governments enact policies that help create jobs.

In early 2021, as the country's economy continued to reel from the pandemic's devastating effect, the Inclusive Society Institute published a report, Slowing the Population Growth is Vital for South Africa's Economic Recovery. It called on policymakers to urgently address the population growth problem, saying the country's job crisis is partly the result of its too-high birth rates.

The thesis of the report is relatively straightforward. If the population grows at a faster rate than the number of jobs in the economy, unemployment will inevitably rise. At the time, South Africa's official unemployment rate had surpassed 32% — then the highest level on record, though it would climb higher in the months that followed.

"High population growth without accompanying high GDP growth is dangerous for the economy," the institute's chief executive Daryl Swanepoel told the *Mail & Guardian*.

"Everybody talks about Africa's youth dividend. But it's only a dividend if it is accompanied by economic growth. It is a liability if it is not accompanied by growth."



According to the report, based on the country's population growth trajectory (1.48% per annum at the time) and an average annual GDP growth rate of 2%, the country's expanded unemployment rate would fall by an insignificant 1.44 percentage points between 2019 and 2029.

South Africa's population dynamics have already changed somewhat in the three years since the report was published. According to Swanepoel, the country's population growth rate appears to have fallen to about 1% year-on-year.

The country's growth prospects have also seemingly deteriorated. If economic growth trends are sustained, South Africa's expanded unemployment rate will still stand at a staggering 36.4% in 2029, according to Swanepoel's calculations. "That's quite dangerous," he added.

Swanepoel noted that, while South Africa's falling population growth rate is a step in the right direction, this change's positive effect will only be felt in 15 or more years, when some of the children born this year start to enter the workforce.

"If we continue with the existing population growth rate, then — if we don't get 3% or 4% GDP growth — unemployment will either stagnate at this high level or even grow," Swanepoel added.

Later in 2021, S&P Global also sought to plot future growth paths for the five largest economies in sub-Saharan Africa based on their changing demographic dynamics. Included in the ratings agency's analysis was South Africa, which had already experienced a steep decline in its fertility rate between 1990 and 2020.

The S&P research cited the 2019 edition of the UN World Population Prospects which notes that fertility rates in some sub-Saharan African countries will decline to levels close to the replacement rate by 2050.

South Africa's expanded unemployment rate will still stand at a staggering 36.4% in 2029, says expert

The replacement rate — the level of fertility at which the population exactly replaces itself from one generation to the next — is 2.1 births per woman.

According to the UN's data, South Africa's fertility rate may fall below that by 2050. The National Development Plan projected that South Africa would reach the 2.1 replacement rate by 2030.

Speaking to the *M&G* this week, S&P economist Valerijs Rezvijs said that, while declining birth rates may be bad for economies in the long term, they can be positive in the short-to-medium term.

"South Africa is in the early stages of this [decline]. Fertility rates are decreasing, but we aren't talking about population ageing," he said.

According to S&P, early declines in fertility rates can have a tremendous effect on the demographic structures of some sub-Saharan African countries. Because there are fewer children, the relative share of people in the working-age population will increase. Population ageing has yet to have started.

In other words, there are more economically active people and fewer people to support, creating a window of opportunity for rapid GDP growth.

S&P's research points to several channels through which a demographic dividend can boost economic growth.

First, when the share of the working-age population increases, the relative share of dependents in the economy becomes smaller. If these workers are employed, per capita income will increase.

Second, lower birth rates and fewer children mean that families can save more for their children's education, increasing a country's human capital.

Third, more savings can lead to an increase in an economy's capital stock — the sum of private and the government's fixed assets.

This potential growth comes with certain caveats. "You can only reap these benefits if, and only if, you create jobs," Rezvijs said.

For South Africa, creating enough jobs could be difficult, as Swanepoel's analysis suggests.

Rezvijs said: "It's definitely an opportunity. Whether South Africa will be able to create enough jobs is not clear at the moment ... So, yes, the demographic dividend is not very straightforward. It is an opportunity. But, again, it all depends on job creation."

The S&P report also notes that if governments do not invest in education, access to high-quality education will not be improved, deferring human capital gains. Given South Africa's policy of fiscal consolidation — which has inflicted significant cuts to basic education budgets — this may also be difficult.

On a more positive note, South Africa's advanced capital markets mean that, in the event that families are able to save more, they have the infrastructure to invest.

"In that sense South Africa is quite well positioned ... I feel more optimistic, because of the strength of South Africa's financial sector."

The S&P report flags potential unrest if economies fail to create jobs. "Unless a sufficient number of well-paid jobs are created, demographic transition can be a source of risk, since young frustrated people may become a source of political instability," the research notes, citing the Arab Spring revolutions between 2010 and 2012.

"We worry about that as well," Swanepoel said, adding that the government may have to rethink its austere approach to public spending to stimulate economic growth.

"It worries us. And we are saying that, if we do not move from this low growth to reasonable growth, then the worst case scenario is not necessarily fiction," he added.

"Because the question you have to ask is: At 37% unemployment — and nearly 60% of young people unemployed — how long are they going to be patient?"