INCLUSIVE SOCIETY INSTITUTE

Op-ed

Slowing the population growth rate is vital for South Africa's economic recovery
By Daryl Swanepoel

Unemployment has reached an all-time high in South Africa. As at the end of the first quarter of 2020, the official unemployment rate stood at 30,1%. Whilst it did decline to 23,3% in the second quarter of 2020, this was because of the increase in the expanded unemployment rate, which rose by 2,3 percentage points compared to the first quarter of 2020. This was due to the significant increase in the number of people that were available for work, who are no longer actively looking for work. In terms of the expanded definition of unemployment, the rate soared from 39,7% to 42%.

Of particular concern is the extreme unemployment amongst the youth of South Africa. Unemployment in the age group 15-24 for 2020 stood at 55,97%.

As at the end of 2019, GDP has also been falling. According to Statistics South Africa, the economy registered three consecutive quarter on quarter declines. GDP (seasonally adjusted and annualised) in the first quarter of 2020, fell by 2%. It contracted by -1,4% and -0,8% in the fourth and third quarters of 2019, respectively. Much emphasis has been placed on the need for material GDP growth to arrest the spiralling unemployment. To reduce unemployment to about 10%, the South African economy will have to register growth of around five to six percent per annum for the next twenty years. This, whilst average GDP growth over the ten-year period 2009 to 2018 averaged a mere 1,5%.

Mainstream arguments advanced by the South African government as to the root causes for the growing unemployment include, amongst others, the legacy of apartheid and poor education and training, labour demand – supply match, the hangover effect of the 2008/2009 global recession, the role of trade union federations in government, a general lack of interest in entrepreneurship and slow economic growth.

Little mention is made in the general public discourse of the impact that the relatively high population growth has on the economy's ability to generate sufficient numbers of jobs to satisfy the demand. This whilst empirical evidence confirms the link between population growth and the economy's ability to generate sufficient jobs. It furthermore suggests that by reducing population growth in middle income countries, it seems to benefit mainly young workers aged 15 to 19, which is of great importance in the South African context of extreme youth unemployment.

Over the nine-year period 2011 to 2019, the South African population grew by an average of 1,65%. In hard numbers, the population has over the period 2011-2019 grown by an average of 898,000 per annum. On average, there are 600,000 new entrants into the labour market each year. It is evident that should the population grow at a pace greater than the number of new jobs in the economy, unemployment will rise. The average number of jobs created in the economy in the same period averaged about 278,222. That means that, on average, new jobs are created for only around half of new entrants into the labour market.

The Inclusive Society Institute will soon be releasing its report on the impact of the country's high population growth on unemployment. It considers three GDP growth scenarios (2%, 3%, and 4% sustained over a ten-year period), the findings of which are worrying.

As things currently stand, there are around 2,56 workers on average for every available job in the country. Should the current population growth trend of 1,48% per annum (based on the last five years) not be arrested, unemployment will remain stubbornly high under all three scenarios. At a sustained 2% GDP growth, the number of workers per job will only reduce marginally to around 2,51 workers per available job. At 3% it will come down to 2,3 workers per available job, and at 4%, 2,12 workers per available job. That means that should South Africa not be able to sustain a GDP growth of 2% or more, unemployment will continue to grow. Bear in mind that the average GDP growth over the ten-year period 2009 to 2018 averaged a mere 1,5%.

Measuring the unemployment rate under the three scenarios reveals similar trends. Currently, around 37% of the active labour force is unemployed. At a 2% sustained GDP growth over the next ten years, active labour force unemployment (at 37%) will continue to reflect the current trend. At 3% GDP growth rate, unemployment will reduce to 32% by 2029, and at 4% GDP growth, to 26%. Once again, should the country not be able to sustain a GDP growth rate in excess of 2%, unemployment will continue to grow.

It should be mentioned that the aforementioned does not take into account the aggravating impact of the COVID-19 pandemic on the economy, and thus the projections are somewhat overstated.

There are only two ways to reverse these fortunes: higher GDP growth, which is highly unlikely given the country's historical GDP trajectory and within the context of healthy GDP growth within middle income developing countries considered to be between 2% and 3%; or to reduce the population growth rate.

The institute's report goes on to imagine a comparative scenario in 2029 based on a half-percent population growth rate. The National Development Plan sets this as the target for 2030. Under such a scenario, unemployment will, at a sustained 2% GDP growth rate over the next ten years, be reduced from the current 37% to 31%. At 3% GDP growth it will reduce to 25% and at 4% GDP growth to 18%. This paints a far more encouraging picture. However, expectations must be tempered, since, as can be learned from the transitions in other societies, a reversal of the current trend will take some time to effect.

Changing population reproductive behaviour is a long-term endeavour facing many obstacles, such as cultural and religious hurdles. It will require a concerted national campaign and short-term dividends should not be expected. That said, avoiding the issue will be at the country's peril, in that it will serve only to prolong and deepen the economic defects. If left unaddressed, it could very well push the economy over the proverbial fiscal cliff. Any future economic recovery plan will have to place equal importance on the reduction of the population growth rate, as it does on interventions to spur GDP growth. The two concepts are tied at the umbilical cord.

Daryl Swanepoel is the Chief Executive Officer of the Inclusive Society Institute. This article draws on the content of the institute's soon-to-be-released report, 'Slowing the population growth rate is vital for South Africa's economic recovery'.