Growth Problems of the South African Economy with Particular Reference to the Population Explosion

A. S. JACOBS

SUMMARY

Recent demographic trends indicate a more than doubling of South Africa's total population and labour force during the next 27 years. Even with adequate training programmes, and despite the Republic's rich mineral base, it will demand great efforts from all concerned to provide employment opportunities and improved living standards for such a rapidly increasing population—especially considering the fact that 30% of the labour force is still engaged in the agricultural sector.

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In the postwar period, economic growth has become a magic word. Today, growth in material well-being is in each and every country a conscious goal, not only of ambitious individuals in societies long known for such achievement, but also in civilisations tradition-bound and economically stagnant for centuries. A high rate of growth is now regarded as imperative in order to provide for the rising expectations of the consumer public. Rising standards of living are often claimed as a right, for which governments are made responsible, and are no longer seen as the fruits of honest endeavour, enterprise and proper training of the individuals only. No wonder that we are living in a world riddled with inflation.

ECONOMIC GROWTH

The economic growth of a country is determined by improvements in its productive capacity. This productive capacity is in turn especially influenced by the quantity and quality of its factors of productions, viz. natural resources, labour, capital and entrepreneurship. But as Kindleberger remarks: 'There is no unique way to describe the growth process, and it is foolish to insist on one'.

By international standards, South Africa is well endowed with natural resources, and these resources have no doubt made a significant contribution towards improving the standards of living of its people. This prompted De Kiewiet, the historian, to express the view that 'South Africa has advanced politically by disasters and economically by windfalls'. Whatever merit or truth there may be in this remark, the fact remains that the presence of natural resources does not *per se* guarantee the economic development of a country. For this purpose, there must be the necessary cultural forces operating to transform this natural wealth into productive investments.

An inspection of the performance of the South African economy since the 1920s shows that the rate of growth has tended to accelerate markedly, especially in the postwar period. The average real growth rate during the 1920s was 3,9% p.a., 4,4% p.a. during the 1930s, 4,7% p.a. during the 1950s and 5,7% p.a. during the 1960s. This was no mean achievement, but the overexpansion that occurred towards the end of the 1960s gave rise to the development of various bottlenecks, such as the lack of availability of skilled labour and capital, balance of payments problems and an escalating rate of inflation that forced the government to impose restrictive measures to curb the excessive spending. As a result, the annual growth rates in the early 1970s were relatively low, but the indications are that a new upswing in economic activity started in the last quarter of 1972 and is gradually gaining momentum.

ECONOMIC DEVELOPMENT PROGRAMME

Because of special factors such as the rapid population growth, the depopulation of rural areas, and the pursuit of a higher standard of living for all sections of the community, it has already become traditional for governments in South Africa to make economic growth a very important aim. An important step, not only towards the stimulation of growth, but also to the promotion of balanced growth, was the introduction of economic planning in 1964. The Economic Development Programme (EDP) quantifies the growth potential of the South African economy, i.e. it attempts to provide a quantification of the average growth rate that South Africa will be able to maintain over a 6-year period without having to contend with serious bottlenecks or strains in the labour and capital markets and the balance of payments.

An average target rate of growth of 5,5% p.a. was set until 1971, but because of the lower realised growth rate in recent years, it was decided to step up the target of growth to 5,75% p.a. for the period 1972 - 77. The projected total demand for labour at an average growth rate of 5,75% p.a. in the gross domestic product will increase by 2,87% p.a., which implies an increase in the average output per worker of roughly 2,80% p.a. The latter provides a rough indication of the higher productivity required to sustain a growth rate of 5,75%

South African Reserve Bank, Pretoria
A. S. JACOBS

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p.a., and it is only this portion of the economic growth that is available to improve the standard of living of the South African population. The poor performance of productivity over recent years is also largely responsible for the lower rate of growth during this period.

Although during the 1960s, subsequent to the advent of economic planning, the realised rate of growth exceeded the EDP target rate of 5,5% p.a., this higher rate of growth was achieved at a considerable cost to the economy. Experience has shown that serious bottlenecks tend to develop whenever an average rate of growth as high as 6% p.a. is sustained over long periods. Moreover, in recent years certain structural problems, such as the decline in the propensity to save and a rise in the capital/output ratio, have emerged, which would make it difficult to realise, during the period 1972 - 77, an average rate of growth of 6% p.a. or higher, as visualised by some ambitious critics. As it is, it will demand great efforts to realise an average rate of growth of 5,75% p.a. as visualised by the EDP over the programming period 1972 - 77.

POPULATION EXPLOSION

Projections based on the most recent demographic trends indicate that South Africa will have a total population of between 45 and 50 million by the turn of the century. The Republic's total population is at present increasing at a rate of 2,7% p.a., which is certainly among the highest in the world. The total labour force, currently comprising 7,8 million workers, is expected to increase to at least 16,6 million by the end of the century. This more than doubling of South Africa's total population and labour force over the next 27 years will put a severe strain on the economy, not only to provide employment opportunities for the new entrants to the labour market annually, but also to increase the standard of living of the entire population and, therefore, to satisfy their rising expectations.

At present an average of 215 000 new workers annually enter the labour market to seek employment, the major portion of which has to be provided by private enterprise in a market economy. Moreover, the net amount needed in the form of investment in productive equipment and infrastructure for each worker added to the labour force is conservatively estimated at R10 000. The problem of creating employment opportunities for the rapidly expanding labour force is compounded by the fact that the highest rate of increase is among those sections of the population whose supply of entrepreneurship is minimal.

While industrialised countries can use their resources largely to increase the quality and standards of living of their citizens, developing countries like South Africa have to devote the major portion of their resources towards maintaining the *status quo*. This finds expression in the measurement of the real income *per capita* of the respective populations. More and better housing, hospitals, schools, roads, etc., which are all related to population growth, require saving and investment. In the absence of an adequate inflow of foreign capital, which in any event cannot provide the total or even the major share of our domestic needs, the question is how much we can and are prepared to sacrifice now for the future, by giving up present consumption for the purpose of adding to our future productive capacity. Although the provision of schools, hospitals, roads, etc. is essential, it must be taken into account that their direct contribution to current economic growth is relatively low compared with other more productive forms of investment. Capital is in adequate supply now, but the position could change markedly in the short term. There is, therefore, some substance in the contention of Malthus that a too rapid rate of population growth is the cause of low wages, poverty and malnutrition, and that a rise in standards of living cannot take place unless the rapid increase in the population is checked.

Countries and international agencies providing development aid to developing countries are increasingly realising that they are pouring money into a bottomless pit and, as a consequence, are laying greater stress on family planning and similar educational programmes as a means of eventually increasing the welfare of these people.

HIGHER WAGES

Rapid economic development will, of course, increase the size of the South African economy, which in turn will have cost and growth advantages, in particular for the manufacturing industry. Although 39% of the total number of gainfully employed workers in South Africa, and 66% of the White workers, are engaged in the services industries, the primary sectors, viz. agriculture, mining, and secondary industry, are the prime movers in the economic development of the Republic. Developments in these sectors determine the scope for development in the tertiary industries, including the various professions.

Recently, substantial increases in the wages of lower-paid unskilled workers have been effected in order to improve their standard of living. One may well ask, therefore, whether this development does not contradict the assertion that it is difficult to increase wages if labour in general is in abundant supply. Apart from the fact that such higher wages, often based on the so-called poverty datum line, the wage level of which is in any case dependent on the family size, can add to the inflationary forces in the economy, the danger is real that it may cause greater unemployment among unskilled workers.

AGRICULTURE

Although the agricultural sector contributes only 9,5% to the Republic's gross domestic product, it provides employment for 30% of the total labour force. Output per worker in agriculture is, therefore, low elative to that in other sectors of the economy. However, the number of employees engaged in agricultural activities can only be reduced if sufficient employment opportunities are created in the other sectors of the economy, in particular in mining and secondary industry.

South Africa is self-sufficient in the supply of its food needs and, moreover, exports large quantities of foodstuffs, weather conditions permitting. At present agricultural exports contribute about 39% to South Africa's total annual export earnings, gold excluded. Although the Republic's agricultural potential has not yet been exploited to the full, and allowing for the fact that improved farming techniques as well as new crops or improved seed varieties will permit higher yields, the prospects are nonetheless that, in view of the rapid rise in the total population, the agricultural sector will be hard pressed to provide South Africa's total food needs towards the end of the century. This also means that the exports of some agricultural products might decline, resulting in repercussions on the balance of payments.

Scarcity of food products as a result of droughts has pushed up food prices sharply throughout the world during the past year. On the international markets, the prices of sugar, wheat and mealies have increased during this period by no less than 22%, 126% and 116% respectively. The sharp rise in the prices of foodstuffs is also one of the primary reasons for the prevailing high rate of inflation in the Western world.

EXPENDITURE PATTERNS

The high rate of inflation is South Africa's most serious economic problem at present. The consumer price index rose by 9,8% from July 1972 to July 1973, which presents a slight levelling-off in the rate of increase compared with that during the preceding months. The largest contribution to this rise was made by an exceptionally high rate of increase in food prices, namely 15%. The weight of the food component in the consumer price index amounts to approximately 24%, and it is obvious that household expenditures in general, and especially those in respect of households in the lower income groups, are particularly sensitive to rises in food prices.

The international agricultural prospects for the new crop year appear to be more favourable and a good agricultural crop in South Africa in the new season would also make a valuable contribution towards arresting the high rate of domestic inflation. It must, however, be accepted that the prices of some foodstuffs such as milk, cheese and red meat are more likely to rise than to fall in the future.

An inspection of the pattern of private consumption expenditure since 1965 reveals that expenditure on food, beverages and tobacco as a percentage of total expenditure has tended to decline gradually during this period. This ratio now amounts to approximately 32%. Various reasons may be advanced for this decline in the relevant ratio, but it is more likely that the rise in the nation's standard of living is responsible for this trend, because with rising standards of living, expenditure on essentials, such as food, tends to decline in relative importance.

In 1972 the total amount spent by all households on medical and hospital services amounted to R259 million, or 2,8% of total private consumer spending. Eighty-eight per cent of this total outlay represents expenditure by Whites and only 12% expenditure by non-Whites. The latter percentage does not, of course, reflect the true position regarding the medical expenses of the non-White groups, because the largest portion of the relevant cost is borne by the State.

SIDE-EFFECTS OF GROWTH

In our quest to achieve maximum economic growth, we are often inclined to overlook the harmful side-effects of the growth process. It is only very recently that this aspect has started to receive the attention of the South African authorities, and much work still needs to be done to make entrepreneurs and the public in general conscious of the price we have to pay in terms of health and the so-called quality of life to achieve greater wealth. Walter Heller makes the point: 'If as by-products in our quest for growth we destroy the purity of air and water, generate ugliness and social disorder, displace workers and their skills, gobble up our natural resources and chew up the amenities in and around our cities, the repair of that damage should have first call on the proceeds of growth'.

I am afraid that thus far we have seriously neglected to do our duty with regard to environmental conservation. Projections of population movements in this country indicate that, in the absence of a meaningful decentralisation policy, at least 90% of the White population will be concentrated in the four largest metropolitan areas and five smaller cities at the turn of the century — a position very similar to that obtaining in Australia today.

GROWTH PROSPECTS

Although South Africa may have serious growth problems ahead, this should not be a reason for despondency and pessimism. The fact remains that it would be possible to improve the standard of living and quality of the total population so much more if we could effectively contain the population explosion now in progress.

A revival in economic activity is already under way and is gradually gaining momentum. The balance of payments is in a strong position, capital is in abundant supply and the labour position has eased. Large expansion projects by the government and public corporations running into thousands of million rands have already been announced—some of them are already under way. The cost of the Saldanha Bay-Sishen project is estimated at R750 million; the Richards Bay project at R550 million; the plant for the enrichment of uranium at a further R550 million; there is the prospect that a second Sasol may be established; Iscor and Escom have large expansion programmes, the gold mining industry has gained a new lease of life by the higher free market price; mineral exports are expected to soar during the next two decades after the completion of the new harbours, while the first fruits of the Orange River Scheme should be reaped in the not too distant future. It is now up to the private sector to show its confidence in the economic future of the Republic by expanding production capacity.

I should like to close with a picture of a rapidly developing economy capable of securing higher standards of living for all its people. Better training and motivation of the work force are, however, essential if we are to maintain our record of progressively improving the rate of growth during each successive decade. Like the retired florist turned artist who said he had never really seen flowers until he began to paint them, the modern man and woman cannot understand the world around them without the vision developed and sensitised by a knowledge of economics.