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### South Africa in Transition: The Path To 2030

*J.P. Landman, Tanja Hichert*

#### **The Three Tasks**

The current unrest in North Africa and the Middle East indicate just how successful South Africa was in navigating a transition from apartheid autocracy to democracy. It was an important first step in the long journey from traditionalism to modernity.

Back in the early 1990s, after the release of Nelson Mandela and with the new South Africa looming, two large South African financial institutions, Old Mutual & Nedcor (as it was then known) sponsored a scenario exercise about different possibilities for the future of South Africa. It was an impressive exercise led by impressive people. During the deliberations and analyses of the scenarios, three tasks were identified for a post-apartheid South Africa.

The first was to achieve a peaceful *political transition*. The second was to get the moribund *economy* going again. And the third task was identified as one of *social development*: overcoming poverty, creating enough jobs, delivering housing, water, sanitation and the basics of a modern life to as many people as possible. In short, politics, economics and social development.

Those three tasks still remain, and the extent to which South Africa accomplishes them is what will shape its future over the next 20 years.

#### **Politics**

The political transition has been the task most successfully addressed thus far. The unfinished business in politics is to have regular changes of government on the three levels of state institutions. This has happened only in two of the country's nine provinces and a handful of local government institutions. A previous president has also been recalled from office by the ruling party. These political changes happened without violence, unrest or instability.

Nevertheless, democracy would not be fully embedded before there had been a peaceful change of government effected via the ballot box.

## Economics

The *economic* story remains one of consistent progress, as illustrated by the rising per capita income, declining poverty, higher investment, and more employment in spite of the worst global recession since the 1930s, which affected South Africa as well. A few figures summarise the story.

Since Mr. Mandela left prison, the South African economy has grown by about 65%. In the same period the South African population grew by about 40%. The country got richer, per capita incomes rose, and more resources have been created for social spending and infrastructure. Investment has risen from about 15%/16% of GDP in the middle 1990s to 23% in 2008, before the recession. Public sector investment in infrastructure has risen from 4% of GDP in 2000 to 8%.

If we ignore the devastating recession of 2009/10, when 1.1 million jobs were lost, 45% more jobs were created between 1995 and 2008. In the golden years between 2004 and 2007, the economy grew at more than 5% p.a., 500,000 jobs were created per annum, and the budget moved into a small surplus. Public debt was reduced to 23% of GDP from a high of close to 50% of GDP at the end of apartheid.

It is useful to note that this has been achieved on an average long term growth rate of 3.25% p.a.

### The lost 25 years

In the two decades before the end of apartheid, per capita incomes in South Africa fell; in the 17 years since then it has increased again, by some 28%. One comparison illustrates this dramatic turnaround: the highest level of per capita income was achieved in 1981, incidentally after the strong gold bull run of the early 1980s. That same level of income was again achieved only in 2006. One can talk about South Africa's lost 25 years.

### Social development

The remaining task is *social development*.

The considerable progress South Africa has made in the provision of more housing, water, sanitation, and electricity is well documented<sup>1</sup> and need not be repeated here. Using R524 per month (in 2008 rand values – roughly \$75 per month or \$2.50 per day) as the poverty line, the number of South Africans in poverty has declined from 58% to 49%. This is an income measurement and excludes the benefits from increased social services as described above. At lower levels of poverty line, the decline has been even more pronounced.

Inequality, however, has risen from a Gini of 0.64 to 0.68. The greatest inequality is no longer between race groups, but within race groups.

The biggest single obstacle to social development is unemployment. Beating that is South Africa's biggest strategic dilemma.

### Unemployment

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<sup>1</sup> For a good overview of the trends and data see the [2010 South African Development Indicators](#) released by the Presidency

The official unemployment rate is around 25% but doubles to 50% for the 15-14 year old age cohort. More than 4 million people are unemployed.

To put it in context, the total South African population in 2010 was estimated at 50 million (a full census will be conducted in 2011); the working age population (ages 15 to 64) is about 32 million, of whom 13 million people are working, making for a labour absorption rate of 41%.

The high percentage of youth unemployment prompts all sorts of comparisons with the current unrest in the North Africa and the Middle East. Whether these are actually valid remains to be seen over the next decade or so. What is beyond doubt, however, is that South Africa cannot achieve modernity and will not become a modern country if it cannot crack the hard nut of unemployment.

It is a feature of commodity economies that they benefit hugely in growth and export earnings from commodities, but not in jobs. This structural feature is clearly at work in South Africa, a country with enormous resources that skews its development path.

### **Strategies**

Currently there are three strategies on the table to deal with the unemployment issue.

The first is a higher level of labour intensive growth. The Government prefers not to talk about higher growth but rather about “a new growth path”<sup>2</sup> that will create more jobs – the target is 5 million jobs in ten years. The key to achieving that higher growth rate is higher investment by both the public and private sectors. State subsidies have been made available for private sector investment in selected sectors of the economy. Whether the growth plans would actually materialise is a moot point.

Our own estimate is that the economy is more likely to create 3 million jobs over the next ten years – enough to absorb many newcomers into the labour market, but not enough to roll back the number of 4 million unemployed.

The benefit of the New Growth Path, however, is that it brings a strong political focus on jobs and puts politicians under the spotlight to take those actions that would stimulate job creation.

The second strategy is the very successful Expanded Public Works Programme that aims to create short term, low wage job opportunities. This programme has run since 2004, was very successful, and has been drastically expanded. In his recent budget the minister of finance tallied total expenditure on job creation of about R150 billion – R73 billion will be spent on the public works programme. The average duration of these jobs is 4 to 6 months and the wage is R50 (about \$8) per day or less. The aim is to create 4.5 million of these “job opportunities” over five years. 625,000 such opportunities were created in the past year. These are of course not jobs in the ordinary sense of the word. They should rather be seen as poverty relief.

In addition to the above, two new initiatives have been launched. The first is a wage subsidy designed to get young people into the labour market and for which R5 billion has been set aside. There is considerable resistance from some trade unions against this subsidy and the idea is still somewhat controversial. The plan for this subsidy is to create about 178 000 additional jobs (over and above what normal economic

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<sup>2</sup> The government’s New Growth Path framework document can be downloaded here <http://www.info.gov.za/speeches/docs/2010/new-growth-path.pdf>

growth would have brought) over 3 years. The government has also launched a R9 billion jobs fund to finance innovative new job creation schemes.

### **Demography**

As is clear from the above, there is no magic bullet to solve the unemployment problem.

Perhaps the most redeeming feature about South Africa's long term employment scenario is, as always, demographics. Population growth has slowed to 1% per annum, in large part due to a sharp decline in fertility and high mortality due to disease. The implication of this demographic change is profound. If economic growth continues at a modest 3.25% over the next decade, the country will get richer, more resources will be created, and the labour market will become larger. But a lot of workers will be dependent on public works schemes for a long time to come. That is no help to people already born and knocking on the door of the labour market, but it does indicate that the longer term the balance between population growth and job creation can move into a better balance.

### **A long slog**

Social development is a task that will take time, lots and lots of it. Unlike the first two tasks of political transition and economic resuscitation, it cannot be achieved in a decade or two. We are talking about a multi-generational task.

*J.P. Landman is a political-economy analyst based in Johannesburg, specialising in investment risk analysis.*

*Tanja Hichert is a scenario planning practitioner and facilitator of strategic conversations. She specialises in strategy and futures work, and she facilitates 'Futures Workshops' and 'Risk Futures Workshops' for a wide range of businesses and public sector organisations.*