Growth of 3% is better than you think

IT has become accepted wisdom that the SA economy has to grow at 6% to pull the country out of its problems. Alternatively, that 3% growth is hopelessly insufficient and merely indicative of our poor economic performance. Well, is this true?

In the 15 years between 1977 and 1992 the economy grew by an annual average of 1.5%. Since then it has gained momentum, albeit with the occasional setback, to reach the current rate of slightly above 3%. This is double the growth rate of the Eighties.

And yet, we still hear those mythological claims that the economy was stronger "then" than now. At 3% we are growing twice as fast as in the Eighties – despite crime and emigration.

But there's more. During the Eighties our population increased by 2.5% every year, considerably faster than the economic growth of 1.5%. And when a country's economy grows at a slower pace than its population, there can be only one result: systematic impoverishment.

There's no denying this reality. When *per capita* income declines, the average citizen becomes poorer.

This is what has been happening in South Africa.

By 1992 the *per capita* income in SA was 11% below the 1977 level. For all of 15 years – basically from just after John Vorster's retirement to shortly before the end of the FW De Klerk presidency – the people of SA were subjected to creeping poverty. And this despite windfalls such as the gold price reaching $850 per ounce.

Those 15 years were a time when wealth was destroyed.

De Klerk does get the credit he deserves for breaking new political ground. Along with Derek Keys, the finance minister at the time, he should also be given credit for the economic foundations he laid. The results were not seen in their time, but in many respects the De Klerk government was a more profound economic reformer than a political reformer.

Back to the question on the insufficiency or otherwise of 3% growth.

The answer depends on the population numbers. If the economy grows at 3% and the population at 6%, there can no doubt – such a country is going backwards. The reverse is also true. If the economy grows at 3% and the population at a mere 0.6%, it means progress.

And that is what is happening in SA today.

Projections by the SA Actuarial Society indicate that the SA population will grow by an annual average of 0.6% in the decade to 2010. And the country is looking at economic growth of 3% during this period. The difference is considerable, and it means significant improvements in *per capita* income.

With an economy growing at 3% and the population at 0.6%, the positive shift in *per capita* income could be of the same magnitude as when the economy grows by 5%, but combined with population growth of 2.5%.

Against this background, it would not be correct to dismiss 3% growth as insufficient.

At the same time, we should of course continue to work at expanding our economy at an increasing rate. Annual growth of 3% means it will take some 30 years to double living standards in South Africa. By then, South Africans will have a *per capita* income of about R38 000.

Compare that with the current *per capita* income of more than R200 000 in some developed countries and it is obvious that we still have a long way to go.

So we should do everything possible to accelerate our growth rate. At 5% per annum, for instance, our *per capita* income will double in half the time – 15 years. Imagine a South Africa where workers, teachers, police officers, civil servants and business people earn double their current incomes, after inflation! It will be a different country.

During the past five years, we have made better progress towards that goal than at any other time since the late Seventies. In this regard, Thabo Mbeki is serving us much better than PW Botha did.

Despite justifiable criticism of him, Pres. Mbeki has implemented a healthier economic policy than SA has arguably had at any other time in modern history. His economic record should be judged together with his record on Aids and Zimbabwe.

The public service has been reduced by about 18% since 1994, despite the introduction of nine provincial administrations and large-scale affirmative action. Fiscal discipline has been restored, not only at central level but also in those provinces threatened with collapse during the Nineties. A smaller budget deficit means the state is grabbing less of the available capital.

At the same time, the unions have fallen into line. Strikes have been reduced to a minimum. Privatisation remains on track, despite very vocal opposition from Cosatu. Labour productivity is rising faster than capital productivity.

And, irony of ironies, the Communists are energetic participants in this process. Alec Erwin is leading the thrust for productivity; Jeff Radebe is driving privatisation; Geraldine Fraser-Moleketi is reducing the public service. So much for complaints that the Communists are hampering economic growth!

Of course South Africa is by no means a model state. But it helps to know that what we are doing now is a large step in the right direction towards a better future.

South Africa is not a one-way bet. True, crime is horrific. Emigration is disruptive. The actions of political leaders such as Penuell Maduna are offensive to decent people anywhere in the world. We haven't yet established an inclusive social code for all members of society.

But at the same time we are escaping from our own past, when we destroyed wealth and made people poorer. We should give ourselves credit for our progress.