Up, down, now probably up

The story of the SA economy over the past 40 years may be summarised as follows: first +35, then –11. And looking forward, the next ten years could take us to +17.

Between the early Sixties and middle Seventies, per capita income increased by 35% after inflation. In that time South Africans have, on average, increased their standards of living by a third. That was a respectable performance, and the reason some people are still referring to the "Verwoerd era" as a time of plenty for all.

But this wave of prosperity came to an end in the middle Seventies. SA became involved in the Angolan war, the Namibian conflict was escalating and internal unrest started with the Soweto uprising of 1976.

The consequences were dramatic: while real income grew by 35% between Sharpeville and Soweto, it dropped by some 11% between Soweto and the inauguration of Nelson Mandela.

SA was becoming systematically poorer. Many of the pains and inadequacies we now experience in areas such as public health and education, may be traced back to that decade and a half of relentless impoverishment.

Two influences shielded most whites from this reality – the gold price and the temporary protection of apartheid.

Occasional gold booms created the illusion of prosperity, but it remained an illusion. For instance, per capita income grew by 4,3% in 1980 as the gold price topped $850 – but it came down again when the gold price did. By the end of 1983, per capita income was back at pre-boom levels.

Inevitably, by the Nineties, whites would also become victims of this creeping impoverishment. But in the Eighties they still enjoyed good schools, excellent medical facilities and an abundance of job opportunities. However, these were not the fruits of a growing economy, rather the results of an apartheid safety net.

It could not last and by the early Nineties the De Klerk government had to look at serious school fees with the introduction of Model C schools, hospitals began to suffer from a lack of capacity and capital expenditure on infrastructure was cut back.

No matter how you look at it, selective privileges for whites and other groups could not hide the fact that SA was becoming poorer in the two decades between the middle Seventies and the middle Nineties.

In the five years of Mandela's presidency, the decline in per capita income was turned around to a modest increase of 2,5%. This was totally inadequate to address the country's social and economic needs, but it did bring an end to the ongoing deterioration of the preceding 20 years.

What are the current prospects?

We are looking at +17. The SA economy should be able to maintain a growth rate of 3% per annum, excluding the impact of Aids. The most advanced work done on Aids, By ING Barings, estimates the growth impact at between 0,3% and 0,4% per annum. Everything else remaining the same, that means a 3% economy will be reduced to about a 2,5% economy.

Population growth is currently estimated at 1,7% annually. The Actuarial Society of SA predicts that Aids will reduce this figure to zero by 2010, with average growth of 0,9% over the next ten years.

If the economy grows at 2,5% and the population at 0,9%, the inescapable conclusion is that per capita income will increase. By 2010 SA could have an economy which is 28% bigger than present in real terms, while the population might increase by some 9%. If that happens, per capita income will increase by about 17% over the period.

This would be in sharp contrast to the decline of 11% in the two decades between Soweto and Mandela and considerably better than the 2,5% growth in Mandela's five-year term.

Of course, these assumptions may be undermined by international crises (as has happened in 1998), by local political uncertainty (as in Pres Mbeki's handling of the Aids debate and of Zimbabwe) and by structural constraints in the SA economy (for instance, if the impact of Aids is worse than expected or commodity prices collapse).

On the other hand, the economy may grow by more than 2,5% in a scenario of privatisation, deregulation (particularly of telecommunication) and closer ties to the European Union. If we can achieve 3% growth, per capita income will increase by 22% instead of 17% over the next decade.

It is much too early for categorical statements, but, on a balance of probabilities, 17% over the next ten years does look attainable.

Regular column in Insig, December 2000