

Whither a Demographic Dividend South Africa: The Overton Window of Political Possibilities

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Preface

Statistics South Africa produces a wide range of statistical releases and reports, but all too often these receive attention in relative isolation. More recently I have adopted an integrated approach in presentations to bridge the gap in the isolated reports. The framing of this report, 'Whither a Demographic Dividend South Africa: The Overton Window of Political Possibilities', seeks to provide cross-cutting analysis that relates to South Africa's demographic dividend, drawing information from several of Stats SA's household surveys and the national accounts as well as information from other countries. The results of Stats SA's surveys of households and municipalities show impressive socio-economic transformation in the lives of the majority of South Africans since 1994. However, the notion of a demographic dividend, or the additional boost to economic growth that can follow a demographic transition, raises the all-important question whether enough has been achieved.

To deepen the foundational questions, I wish to introduce the concept of the 'Overton window of political possibilities'. The central thesis of the Overton window is that only a small part of a policy spectrum is within the realm of the politically possible at any given point in time. In fact it is public opinion that defines the window and provides the political calculus through which politicians determine the speed and distance worth risking. As such, only policy choices within this window of the politically possible will ever meet with success, ordinarily speaking. The Overton window critique points out that in the realm of political options, choices and decisions, politicians often display the proclivity to be self-serving, self-interested and desirous of obtaining the best political results for themselves, their party and their government alone. It is for this reason, so the argument goes, that politicians will almost always lend themselves to taking actions, self-evidently within a window of ideas approved by the 'people'. Actions outside of this window, while within the realm of the possible, and sometimes even more necessary in terms of sound policy, are often politically unsuccessful.

So, when theory, praxis and the principles of sound fiscal and other economic policy-making suggest a particular idea that lies outside the Overton window, what is to be done? Shift that window of acceptability! For the sake of expediency, the window of that which is politically possible is moved and those policies, previously impractical, become the next 'great popular and statistical frenzy'. Thus, an idea that started far outside the socio-political reality and the policy spectrum is advocated and becomes thinkable. It crosses from the fringe, is argued for and becomes trumpeted. The window has moved and wild beasts come sprawling through it, waiting to be born. Or so we think, alas.

How wrong we can be. Decisions we take in the course of political office, in the short term to boot, often have effects, impacts and consequences long after we leave office – the 'construction sites' which require solid foundations, strong walls and impermeable roofs. And windows that should not be moved willy-nilly. South Africa's National Development Plan (NDP) is such a decision system and statistics provide the evidence system.

This report paints a picture of evidence over the past thirty years on the socio-economic conditions that are a fundamental requirement for a demographic dividend to take place. In a way the analysis asks the fundamental question of what in the case of South Africa is the Overton window of political possibilities. Where is it in the context of socio-economic challenges of addressing inequality, unemployment and poverty? The evidence in the analysis confirms that a demographic dividend phraseology as part of a system of evidence is scientific. It advances framing the Overton

window as an interlocutor for politics, public opinion, evidence and think tanks. In a very practical way and sense it focuses attention on the NDP using the system of evidence.

The report raises the bar in the development discourse of South Africa. More importantly it poses penetrating questions as to from where growth and development will be derived. By analysing data through the pyramid of the four race groups, the report shines light on the key drivers of the demographic dividend. High propensities are observed amongst whites for clear historical reasons. A very rapid catch-up amongst Indians/Asians in spite of apartheid barriers is revealed, but a stubbornly failing demographic dividend amongst coloureds and black Africans persists despite a successful demographic transition. In a way the demographic theatre in South Africa as displayed by the four race group analysis provides in dramatic ways what failure is. Therein lie the ingredients for answers. The NDP does lay the path towards these answers and points South Africa towards true north. But the journey thus far travelled, which would have been unbearable and treacherous had apartheid been sustained, portends a divergent direction from true north. The question is thus: Whither a demographic dividend for black Africans and coloureds in South Africa? The numbers in the report show the perilous obvious which is – in the absence of a demographic dividend for 90% of the population, namely black Africans and coloureds – a demographic disaster is in the making. The analysis poses urgent questions for policy makers, namely what should be done over what period of time to what cohorts of the population to ensure that black Africans and coloureds achieve the demographic dividend they deserve. It elevates the NDP framework but pierces a more permeating question of where is the detailed plan through which the NDP is to be surely implemented.

President Nelson Mandela reminds us that ‘significant progress is always possible if we ourselves plan every detail and allow intervention of fate only on our own terms. Preparing a master plan and applying it are totally different things.’ The NDP is a master plan and applying it requires a planning system and above all a detailed integrated plan underpinned by crucial statistical evidence.

As regards the declaration by African Heads of State in their July Summit of 2017 on the Demographic Dividend there remains a painstaking question. How will African technocrats and planners respond to this vexed question? Will they as they usually do roll themselves up into the politics? Or will they sulk and bide their time in the knowledge that soon a new regime will be in place and the question may be asked differently? Or will they rise to the occasion and play their brains trust role and confront the assignment for the sake of Africa’s future generations? Whilst it is true that basic data as well as high frequency data in a significant number of countries in Africa do not exist notwithstanding significant progress on this front, the ‘laziness’ afflicting technocrats from analysing whatever data are available is the biggest enemy to Africa’s development. African statisticians need to step up to the plate if the real problems of the continent beyond petty politicking are to be confronted and addressed.

This report is a treatise and testimony to the significant progress that Statistics South Africa has made in availing a conduit of trust – the crucial statistics and data necessary for planning, including raising the bar on crucial prospects for planning systems. At a 2011 Cabinet Lekgotla, President Zuma shared with us his years as a child. Amongst other things they did as a pastime was to entertain themselves ‘spanning (harnessing) frogs’. But he lamented that frogs jumped at different points in time and in different directions, and failed to pull together thus rendering their attempts at spanning them futile. Albeit fifteen years apart, as a child I recall we spanned grasshoppers as pastime entertainment. Like frogs, grasshoppers would jump and even fly, but we had a solution to this problem. We amputated their hind legs. They then pulled together. The President concluded

that planning in government is like spanning frogs. The analysis in the report points us on how to move from spanning frogs, which jump incoherently and fail the planning test, to spanning grasshoppers, but with a proviso of amputating their hind legs. Evidence and its organised application is the instrument for amputating grasshoppers. Reigning in 600 BC, Cyrus the Great of Persia implores us to observe an important law for successful execution of plans, namely: 'Diversity in Counsel, Unity in Command'. Grasshoppers can retain their hind legs during counsel but they have to forfeit them in command. This maxim has to be understood by policy makers, statisticians, planners and implementers alike in order to avoid a perpetual in-counsel paralysis.

A handwritten signature in black ink, appearing to read 'PJ Lehohla', written in a cursive style.

Dr PJ Lehohla
Statistician-General

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1. Abbreviations

AIDS	Acquired immunodeficiency syndrome
ANC	African National Congress
DBE	Department of Basic Education
GDP	Gross domestic product
HIV	Human immunodeficiency virus
HPAEs	High-performing Asian economies
IMF	International Monetary Fund
MPC	Monetary policy committee (SARB)
OECD	Organisation for Economic Co-operation and Development
NDP	National Development Plan 2030
NPC	National Planning Commission
SADC	Southern African Development Community
SARB	South African Reserve Bank
SETA	Sectoral education and training authority
SOE	State-owned enterprise
Stats SA	Statistics South Africa

2. Introduction

The concept of a demographic dividend is based on the link between a country's demographic profile and its potential for an increase in economic growth. Typically, starting from a position of a high fertility rate and a relatively large young population, if there is a decline in the country's fertility rate over time, there follows an increase in its working-age ratio, which is the population of working age (15–64 years) as a percentage of the total population. There is a corresponding decrease in the dependency ratio (those below 15 and over 64 as a percentage of the total population). On the assumption that there is positive growth in the total population, a higher working-age ratio results in more labour resources becoming available to devote to production. In addition, the lower dependency ratio means that, at least in relative terms, less time and energy are diverted away from productive workplace activities to care for the young and the elderly. The resulting boost to economic growth, if it takes place, is known as the demographic dividend.

An increase in the working-age ratio does not lead to a demographic dividend automatically. Rather, it presents an opportunity for higher economic growth which may be achieved in full or in part or not at all. For the demographic dividend to reach its full potential, favourable socio-economic conditions are required. If socio-economic conditions are unfavourable, a demographic dividend could remain elusive. There is also the danger of a high working-age ratio becoming severely problematic if there is insufficient job creation. High unemployment aggravates poverty and inequality and raises the risk of social unrest.

South Africa's National Planning Commission (NPC) recognises both the opportunity and the threat posed by the country's demographics (2012: 99):

'The population has a proportionately high number of working-age people and a proportionately low number of young and old. This means that the dependency ratio ... is at a level where there are enough people of working age to support the non-working population. The caveat in South Africa's case is that unemployment and HIV/AIDS have produced many more dependants than would normally be the case. Although statistically South Africa is in a position to cash in on a demographic dividend, the challenges of joblessness and HIV/AIDS are a burden on those who are working. If not managed, the perfect window could become the perfect storm.'

Section 3 of this paper discusses the international experience regarding demographic transitions and the demographic dividend; selected countries in East Asia and Latin America are used as examples. Section 4 provides an overview of key socio-economic conditions that are required to maximise the demographic dividend. Section 5 examines demographic trends in South Africa. Socio-economic conditions are revisited in the South African context in section 6. In section 7 the analysis of section 6 is extended by focusing more explicitly on conditions and outcomes by population group. Section 8 summarises and concludes.

3. International experience

3.1 Demographic change

The experience of many countries has been a long-term decline in mortality rates through the successful treatment and reduction of infectious and contagious diseases. Lower mortality rates tend to be followed by lower fertility rates: 'The intuition is that with their children more likely to survive infancy and childhood, parents will reduce their number of births to maintain the same

number of net children' (Ahmed et al., 2016: 5); 'Fertility decisions seem to respond strongly to changes in child mortality as parents realize that if fewer children are likely to die in childhood, they can give birth to fewer children to attain their desired number of offspring' (Bloom et al., 2003: 27). The road to lower fertility becomes reinforced through the benefits and costs of higher levels of education (Bloom et al., 2003: 29):

'Because education is expensive, it becomes more likely that couples will choose to invest greater resources in fewer children. In addition, a greater emphasis on education will inevitably lead to more educated women. This reinforces the likelihood that families will become smaller: Women's time becomes more valuable and they are less likely to want to spend so much of their adult life bearing and raising children.'

The demographic outcome of lower mortality and fertility is an increase in the working-age ratio, which is the population of working age (15–64 years) as a percentage of the total population. There is a corresponding decrease in the dependency ratio (those below 15 and over 64 as a percentage of the total population). If accompanied by appropriate economic and social policies and other supporting factors, this outcome may have a strong, positive effect on economic growth (Bloom et al., 2003: xi):

'Because people's economic behavior and needs vary at different stages of life, changes in a country's age structure can have significant effects on its economic performance. Nations with a high proportion of children are likely to devote a high proportion of resources to their care, which tends to depress the pace of economic growth. By contrast, if most of a nation's population falls within the working ages, the added productivity of this group can produce a "demographic dividend" of economic growth, assuming that policies to take advantage of this are in place.'

Section 3.2 reviews demographic changes and economic growth rates in six East Asian and six Latin American economies from 1960 to 2015.

3.2 The demographic dividend in selected countries in East Asia and Latin America

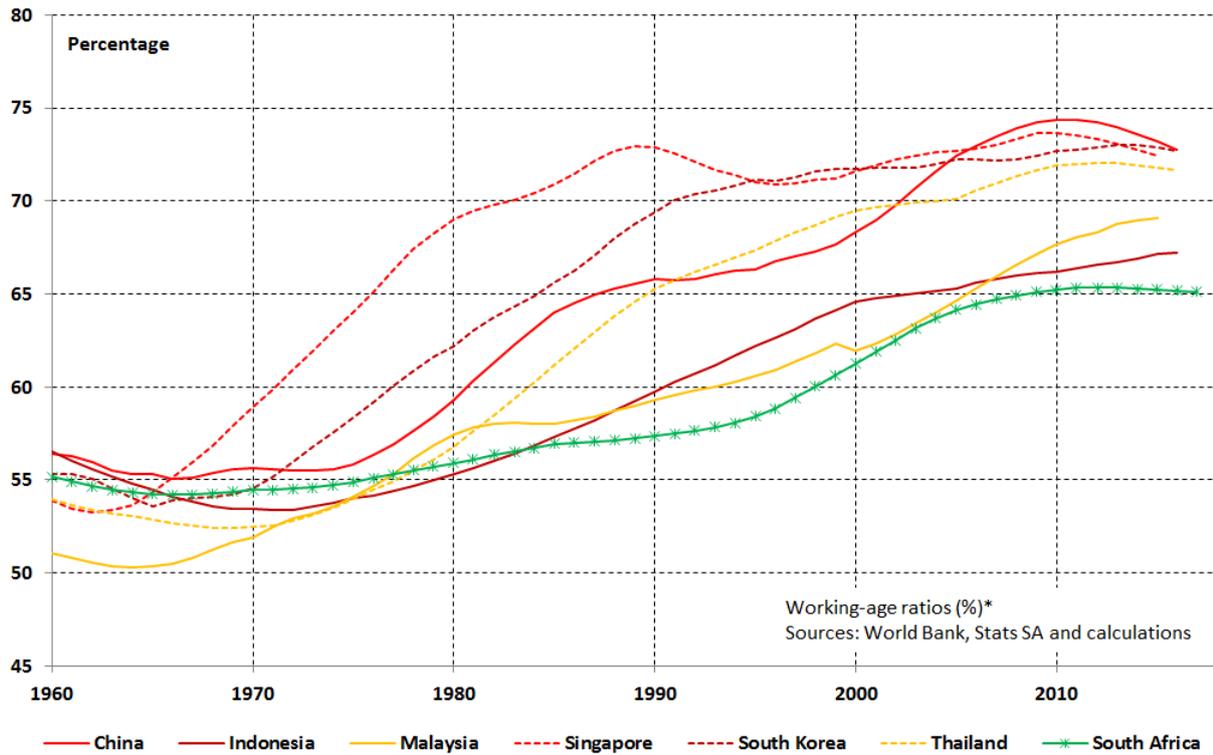
Figure 1 shows the working-age ratio in six East Asian countries and South Africa. In 1960 the ratios ranged from 51% (Malaysia) to 56% (China and Indonesia). The six countries were chosen partly because they all had working-age ratios between 50% and 60% in 1960, as did South Africa (55%), which is shown in the graphs for comparison. By 2015 the East Asian range was 67% (Indonesia) to 73% (China and South Korea).

Similarly, Figure 2 shows the long-term increase in working-age ratios in six Latin American countries and South Africa. The range in 1960 was 50% (Colombia) to 56% (Chile), i.e. similar to the 1960 range in East Asia. All six Latin American countries experienced a demographic transition, though generally not as marked as the East Asian countries, with the Latin American range reaching 64% (Ecuador) to 69% (Brazil) by 2015.

Table 1 shows the increase in working-age ratios for each of the countries in Figures 1 and 2. The increase was generally higher in the East Asian economies, but the Latin American economies did not lag by much, and, going against the general pattern, one of the highest increases shown in the table was in Latin America (Colombia) and the lowest was in East Asia (Indonesia).

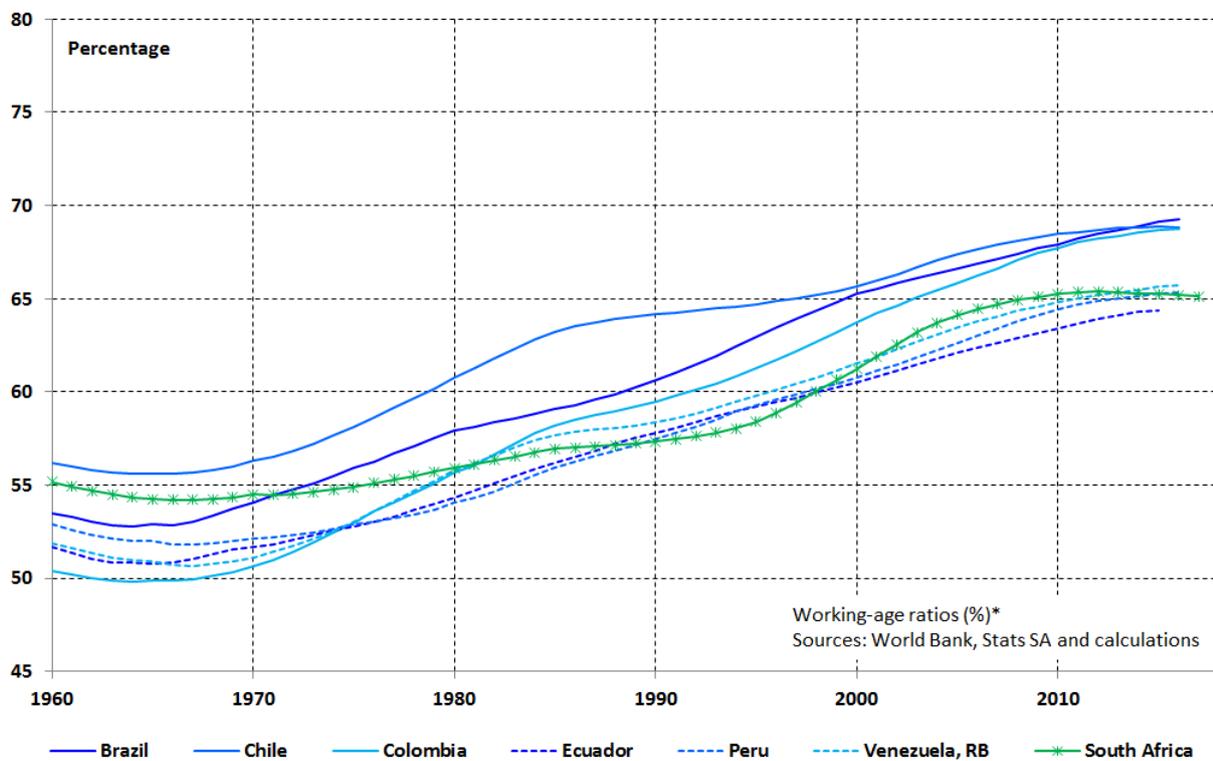
However, the two regions had vastly different experiences in terms of economic growth between 1960 and 2015. These are shown in Figures 3 (East Asia) and 4 (Latin America).

Figure 1 – Working-age ratios (%)*, East Asia and South Africa



* Population aged 15–64 as a percentage of the total population

Figure 2 – Working-age ratios (%)*, Latin America and South Africa



* Population aged 15–64 as a percentage of the total population

Table 1 – Increase in working-age ratios between 1960 and 2015, percentage points

East Asia		Latin America	
China	17	Brazil	16
Indonesia	11	Chile	13
Malaysia	18	Colombia	18
Singapore	18	Ecuador	12
South Korea	18	Peru	12
Thailand	18	Venezuela	14
Unweighted average	17	Unweighted average	14
South Africa increased from 55% in 1960 to 65% in 2015, an increase of 10 percentage points.			

Sources: World Bank, Stats SA and calculations

Table 2 shows average annual economic growth rates for 1961 to 2015. Generally, the East Asian economies achieved impressive growth over a long period. Ahmed et al. (2016: 7) say that ‘famously, demographic transition in East Asia has been credited with facilitating the region’s rapid income growth since the 1960s.’ Growth rates in Latin America were much lower, suggesting that a transition to a higher working-age ratio is not a sufficient condition to produce high economic growth. ‘A comparison between Asia and Latin America suggests that economic outcomes can differ significantly for broadly similar [demographic] transitions. Asia’s more favorable outcomes have been attributed to a stronger focus on human (education and health) and physical capital’ Drummond et al. (2014: 5). Socio-economic conditions in support of a demographic dividend are discussed in section 4.

South Africa’s per capita growth rate from 1961 to 2015 averaged just 1%, which was well below the East Asian growth rates and below five of the six Latin American growth rates. South Africa’s economic growth will be discussed in more detail in section 6.2.

Table 2 – Real GDP per capita, average annual growth (%), 1961–2015

East Asia		Latin America	
China	6,9	Brazil	2,3
Indonesia	3,2	Chile	2,6
Malaysia	3,8	Colombia	2,3
Singapore	5,2	Ecuador	1,6
South Korea	6,2	Peru	1,6
Thailand	4,3	Venezuela (1961–2013)	0,4
South Africa: 1,0%			

Source: World Bank and calculations

Figure 3 – Real GDP per capita, average annual growth (%), East Asia and South Africa

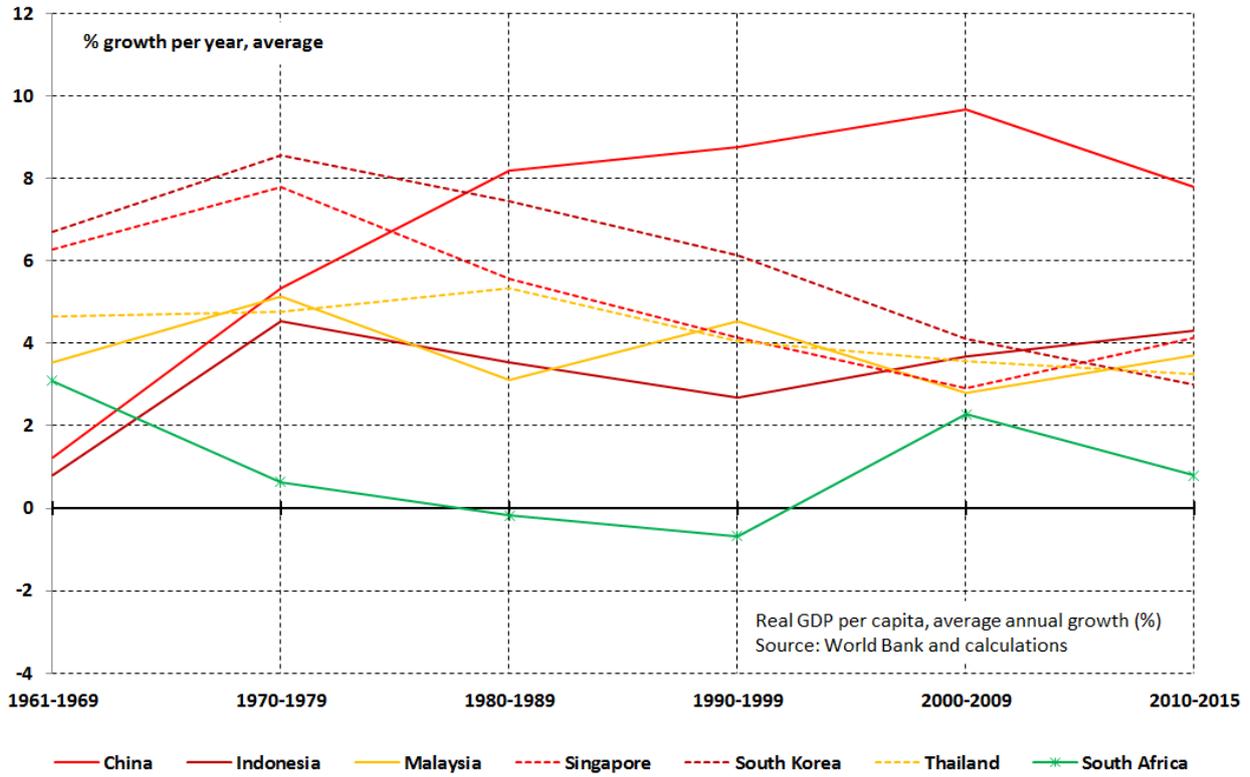


Figure 4 – Real GDP per capita, average annual growth (%), Latin America and South Africa



4. Socio-economic conditions in support of a demographic dividend

Bloom et al. (2003), Gribble and Bremner (2012a, 2012b), Drummond et al. (2014), Canning et al. (2015) and Ahmed et al. (2016) identify a number of socio-economic conditions that raise the prospects for a higher working-age ratio to contribute to higher economic growth. '[The] realization of these demographic dividends is not automatic... [The] magnitude of the demographic dividends could be greater if countries are able to achieve policy outcomes in the areas of education, savings-investment, and employment' (Ahmed et al., 2016: 9).

4.1 Labour market

As the numbers of working-age people grow, their ability to boost economic growth depends critically on their ability to find productive employment. If a country has high unemployment, its prospects for achieving a demographic dividend are low. An increase in the availability of a productive resource will not have positive growth effects if the additional resources are left unused. High unemployment may be the result of demand-side or supply-side factors or inefficiencies in the labour market. Gender equality is an important aspect of an effective labour market: the potential demographic dividend is weakened if women are denied equal opportunities in the workplace and in society more generally.

4.2 Economic growth

A growing workforce needs a growing economy. Without policies that promote economic growth and development, the further boost to growth that can come from demographic transition will be difficult to achieve. Governments can promote long-term economic growth by building strong institutions and avoiding excessive fiscal deficits and high inflation. A stable macroeconomic environment provides individuals with the confidence to save and businesses with the confidence to invest. High savings and investment rates were characteristic of the high-growth East Asian economies during the second half of the 20th century, as were openness to international trade and the promotion of exports. Ahmed et al. (2016: 9) note the importance of savings and investment in the context of the 'second' demographic dividend:

'The second demographic dividend arises and can continue as countries enter the later stages of the demographic transition. When working age populations were rising and high, and dependency ratios are low, there is scope for economies to potentially save more, and invest more in both physical and human capital. These additional investments on physical and human capital can lead to a permanent increase in productivity which can persist long after the working age population shares have begun to decline and populations begin to age.'

Developing human capital through investments in social infrastructure (e.g. schools and hospitals) can significantly enhance the demographic dividend (sections 4.4 and 4.5); so too can investment in economic infrastructure, since reliable and affordable transport, communications, water and power assist exporters and other businesses in becoming internationally competitive.

4.3 Governance

Macroeconomic stability is one aspect of good governance. 'Macroeconomic stability and low inflation were necessary preconditions for rapid growth in all eight HPAEs [high-performing Asian economies]' (World Bank, 1993: 348). Good governance should extend beyond the economic

sphere and should apply across all levels of the public and private sectors. Gribble and Bremner (2012: 5) identify good governance as an important contributor to economic development:

'In addition to health and education, an enabling environment for a demographic dividend needs good governance, which helps attract domestic and foreign investments in local economies. Because the demographic transition results in fewer children to care for, households gradually have more disposable income and savings that they can invest in their own businesses or in others. Similarly, good governance is critical to attract foreign investments that can create jobs and stimulate economic growth. Established legal systems and rules of law, especially contract law and financial standards, must be in place for people to be willing to invest in a local economy. If people are not confident that a contract will be honored or laws enforced, they are not likely to invest in that country. Other aspects of good governance also contribute, such as reducing corruption and efficiently operating governments.'

Commenting on how perspectives on the role of the state have changed over three decades, Stiglitz (2016: 41-42) writes:

'Then, little attention was paid to governance. Now, we realize that governance problems, in both the public and private sector, are critical. Then, we thought that good public governance could be ensured simply by instituting transparency and the appropriate set of checks and balances *within the government*. Now, we realize that, while these are necessary, they are far from sufficient: the problems of governance are societal. Societies with excessive inequality are prone to have governance problems, as the rich abuse their power to enrich themselves at the expense of the rest, creating a "rule of law" that serves themselves well, but does not adequately protect ordinary citizens.'

4.4 Education and training

Education and training are fundamental to addressing the supply side of the labour market. If work-seekers do not have the skills that employers require, they will struggle to find work. A more skilled workforce is likely to be reflected in the skills profile of the employed, with corresponding higher rates of productivity, remuneration and standards of living. Education facilitates the adoption of new technologies, and educated parents are more likely to have the means to ensure a good education for their children. There is also a crucial role for government. The costs of quality education are high, and those who cannot afford it rely on government to provide education services. To the extent that universal education reduces unemployment, quality public-sector education is an important means of reducing economic poverty and inequality.

For too long and in too many countries, women have had less access to education and training than men. 'As an important step to gender equity, and to foster economic growth, countries need to develop and enforce policies that enable girls to go to school and equip them with skills to compete for higher-paying jobs' (Gribble and Bremner, 2012a: 5).

Drummond et al. (2014: 5) note the role of education in the strong economic performance of several Asian countries: 'Investment in human capital is critical to harnessing the demographic dividend. Countries with higher education levels benefit the most. We confirm the role of the demographic variables and the contribution of education in explaining the Asian miracle.' The World Bank's East Asian Miracle report describes human capital as critically important (World Bank, 1993: 349):

'[The] broad base of human capital was critically important to rapid growth in the [high-performing Asian economies]. Because the HPAEs attained universal primary education early, literacy was high and cognitive skill levels were substantially above those in other developing economies. Firms therefore had an easier time upgrading the skills of their workers and mastering new technology.'

4.5 Health care and family planning

To remain productive, workers across the spectrum (low-skilled, semi-skilled and high-skilled) need to remain healthy. Access to affordable health care also encourages smaller families, as parents can be confident that their children's medical needs will be met. Successful health care outcomes reinforce successful education outcomes. If access to good health care is inadequate, the prospects for a demographic dividend are lowered.

A pattern of declining fertility can be strengthened through information on reproductive health and access to contraceptives. 'To chart its course for a demographic dividend, South Korea prioritized access to family planning and implemented an aggressive population policy' (Gribble and Bremner, 2012: 5). Bloom et al. (2003: 72) suggest that it is 'plausible that a sharper [demographic] transition has greater potential to lift an economy out of a poverty trap and onto a higher, steeper, and sustainable growth trajectory.' Drummond et al. (2014: 5) find that the 'faster the increase in the working age share, the faster the accrual of the demographic dividends.' There is a two-way relationship between family planning and education: parents with fewer children can invest more in the education of each child, and higher levels of education produce higher earnings and therefore higher opportunity costs of having more children.

5. Demographic trends in South Africa

5.1 Fertility and mortality

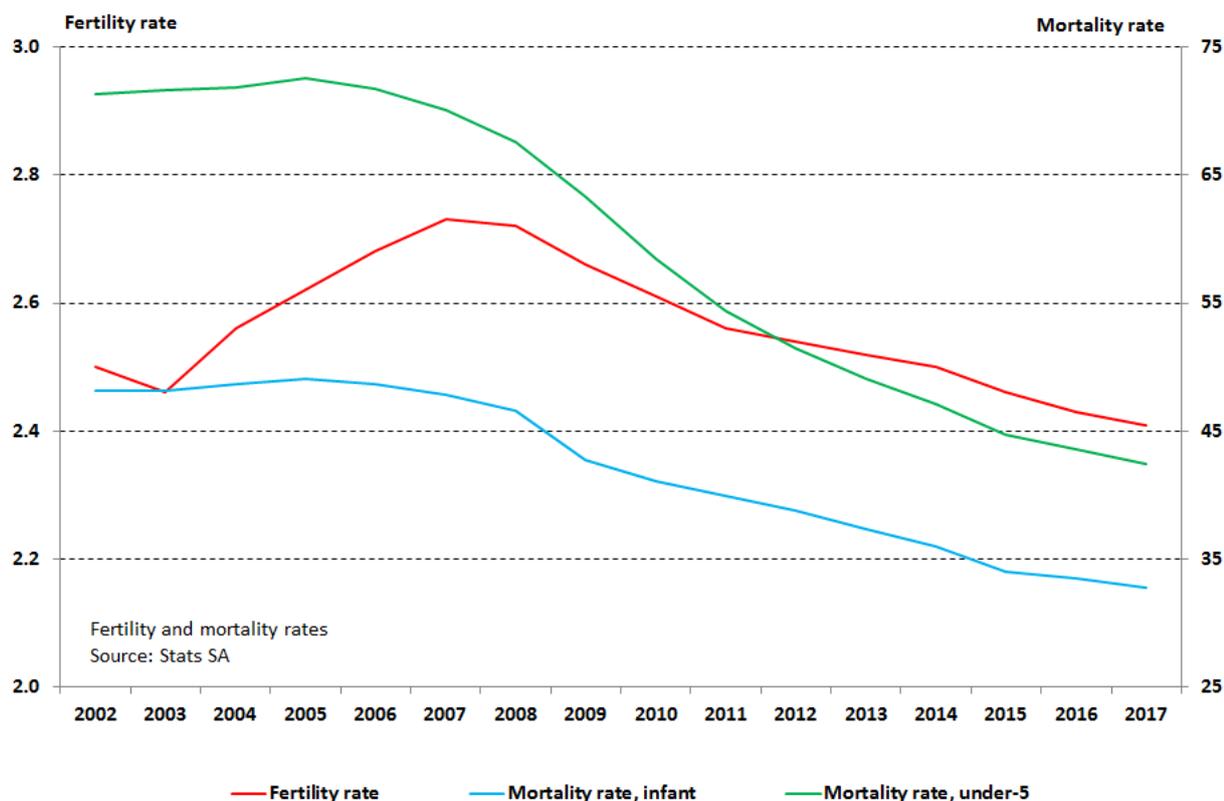
South Africa's population grew from 26 million in 1975 to 57 million in 2017. The average annual population growth rate fell from 2,6% in the 1960s and 1970s to 1,5% in 2010 to 2017 (Table 3). The long-term decline in the population growth rate was the outcome of the fertility rate dropping from 6,1 in the early 1960s to 2,4 in 2017. South Africa's infant mortality rate fell from over 80 (deaths per 1 000 live births) in the mid-1970s to 32,8 in 2017. Fertility and mortality rates are shown in Figure 5.

Table 3 – Population growth rate (South Africa)

Period	Average annual % change	Period	Average annual % change
1960–1969	2,6	1990–1999	2,1
1970–1979	2,6	2000–2009	1,2
1980–1989	2,4	2010–2017	1,5

Sources: Stats SA, World Bank and calculations

Figure 5 – Fertility and mortality rates (South Africa)

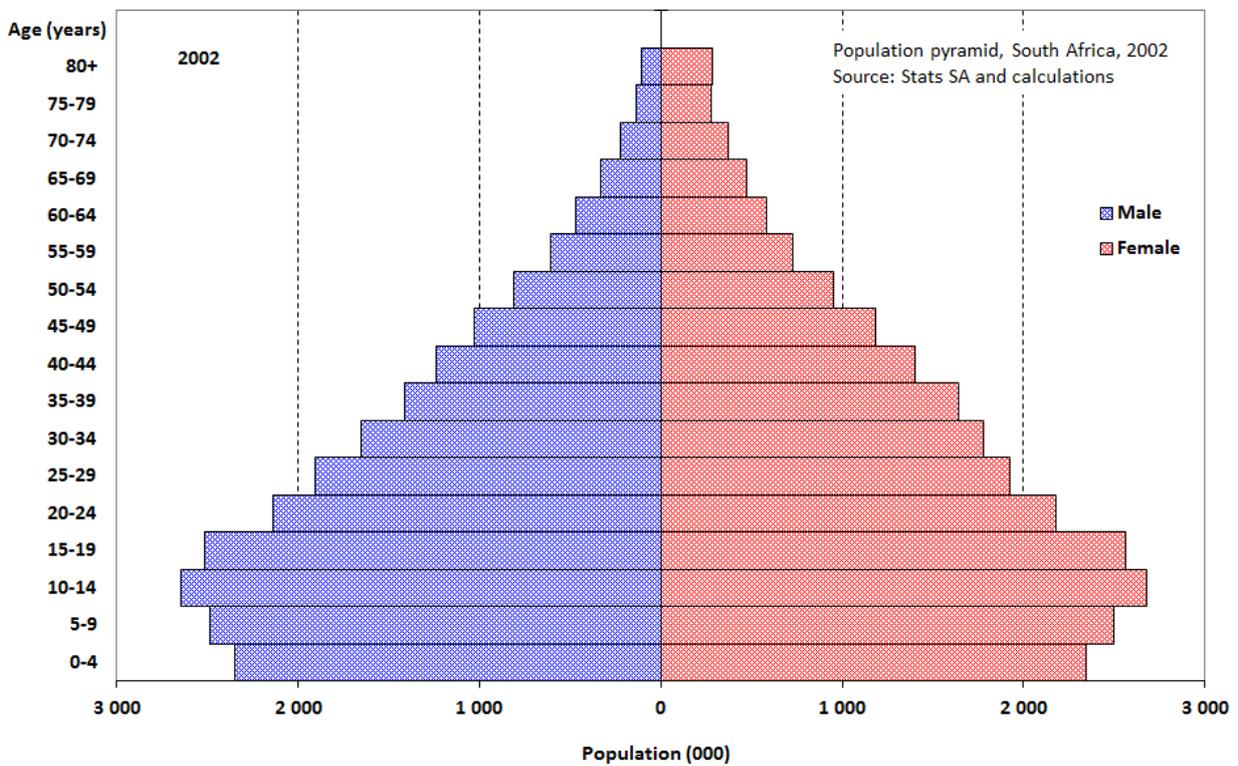
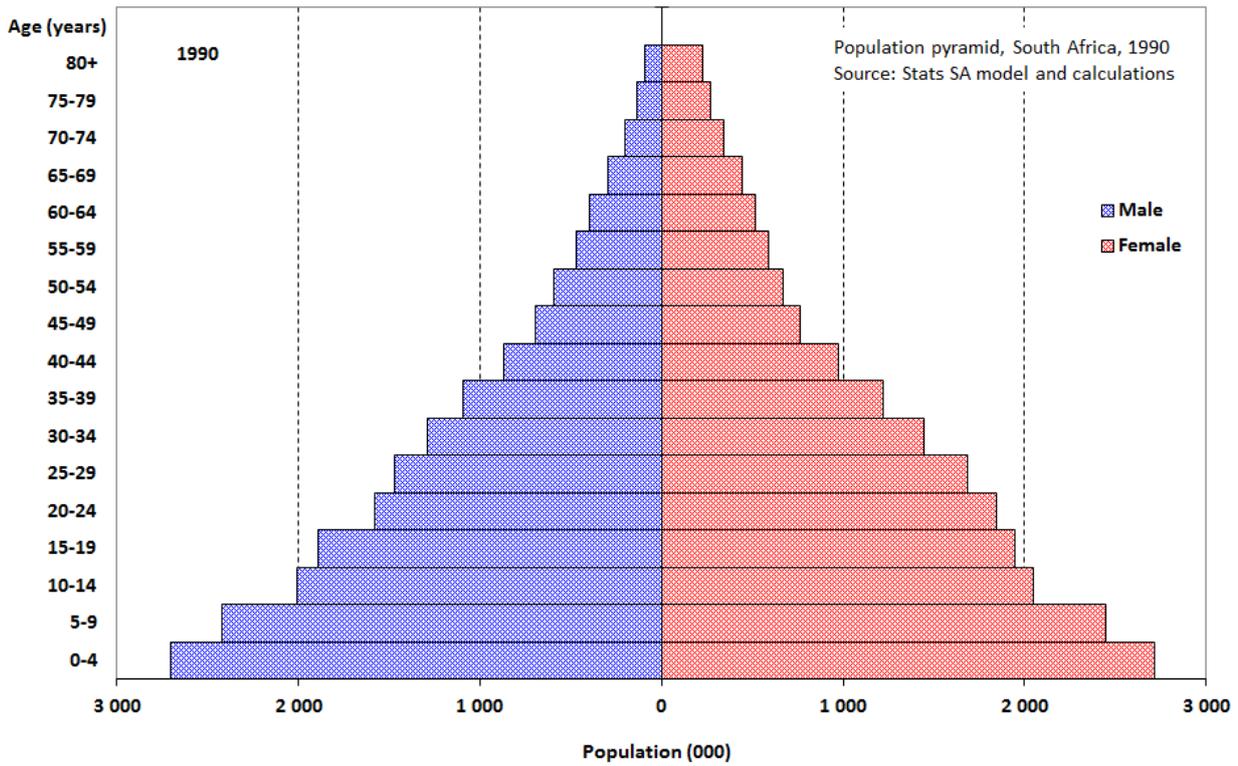


5.2 Population pyramids and the working-age ratio

Population pyramids show the age and sex structure of a country (or community or region) at a point in time. When the fertility rate is high, the pyramid has a wide base, reflecting a relatively high proportion of children. As the fertility rate falls, the base narrows, as was the case in South Africa between 1990 and 2002 (Figure 6). The working-age ratio, which is the population aged 15–64 years as a percentage of the total population, increased from 57% in 1990 to 63% in 2002. Between 2002 and 2017 there was a widening of the base of the ‘pyramid’, but the working-age ratio continued to rise, reaching 65% in 2017.

Figure 7 shows the long-term trend in South Africa’s working-age ratio. It increased from 57% in 1985 to 65% in 2010, thereby establishing the foundation for a potential demographic dividend. However, this demographic transition was not as powerful as that seen in the East Asian and Latin American countries discussed earlier (see Table 1). The international evidence suggests that socio-economic conditions need to be supportive to achieve a successful demographic dividend. The South African experience is discussed in section 6.

Figure 6 – Population pyramids for 1990, 2002 and 2017 (South Africa)



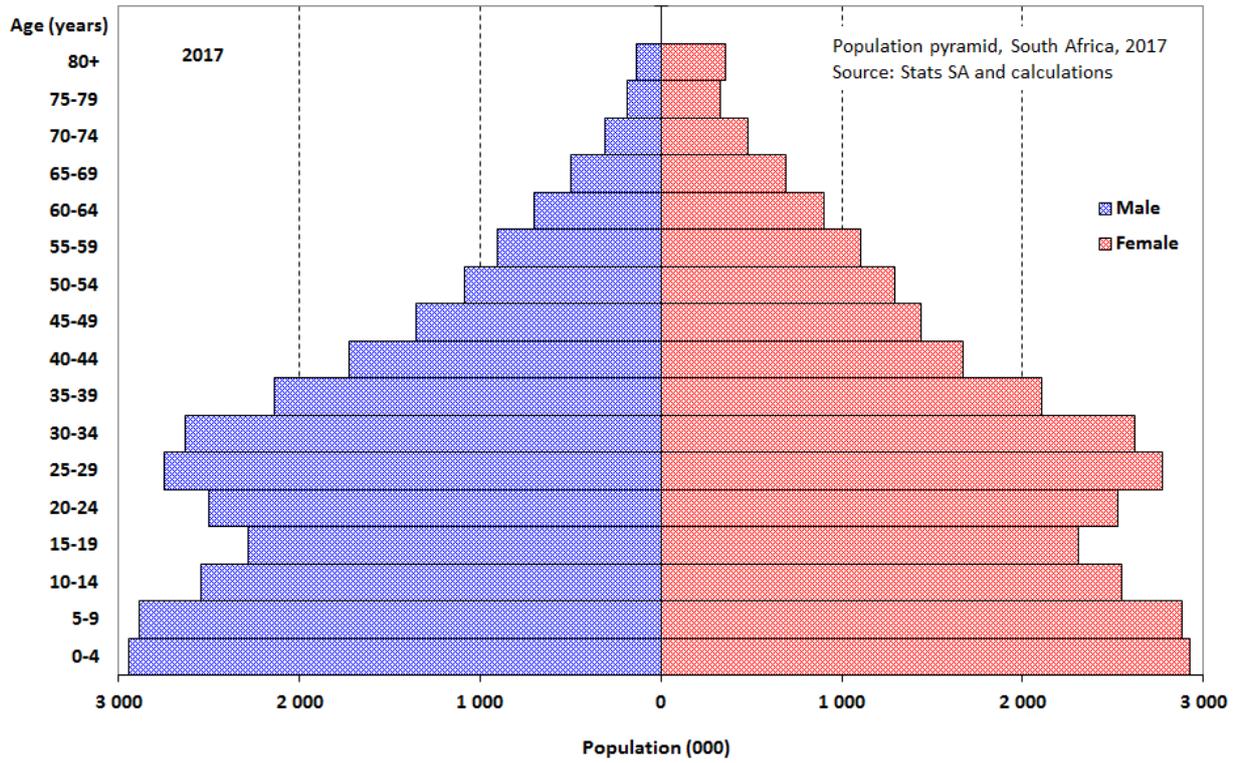
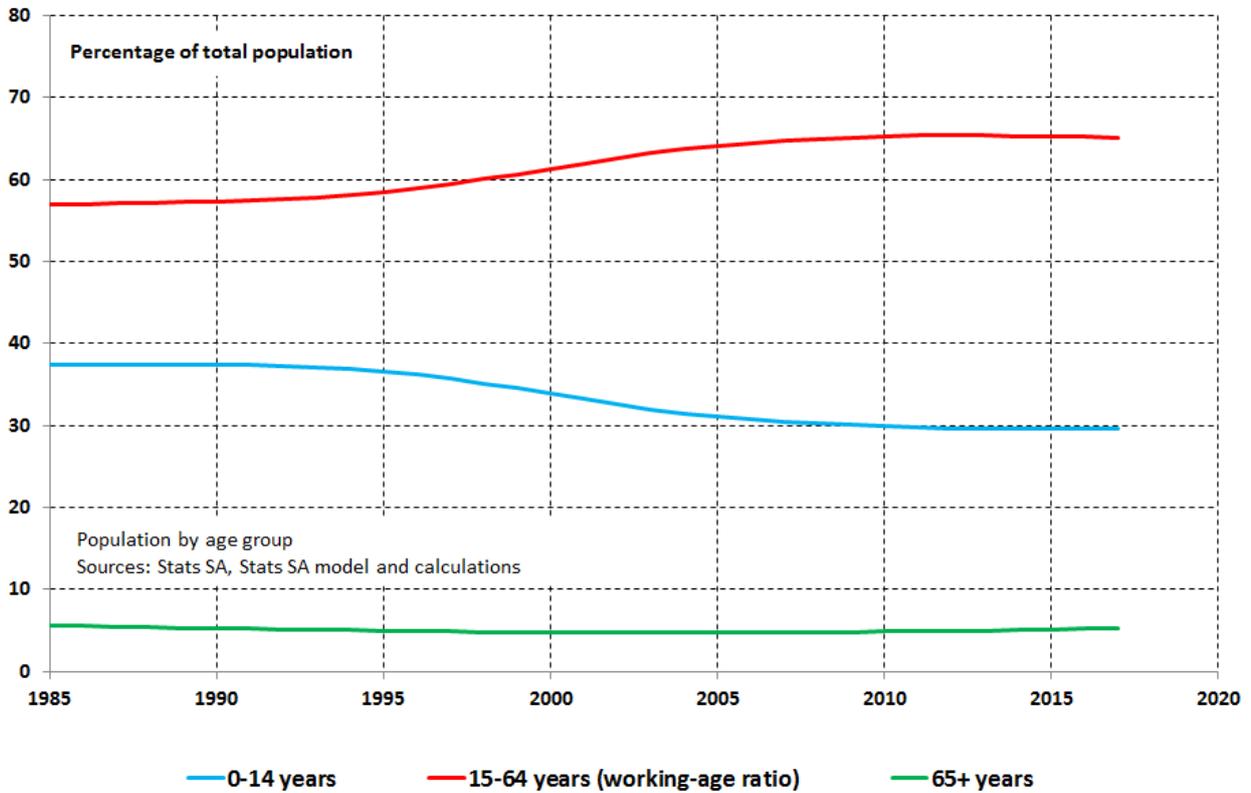


Figure 7 – Population by age group (South Africa)



6. Socio-economic conditions in South Africa

6.1 Labour market

South Africa has a long history of high unemployment. Figure 8 shows the country’s official and expanded unemployment rates since 2008. Expanded unemployment includes discouraged workers, i.e. those who are unemployed and who are considered unemployed even though they have not taken active steps to find work. The expanded rate increased from 30% in 2008 to 35% in 2010, partly as a result of job losses caused by the global economic crisis. Thereafter it stabilised around 35%, but it rose to 36% in 2016 and the number of unemployed continued to grow, reaching 8,9 million in 2016 (Figure 9).

Figure 8 – Unemployment rate (South Africa)

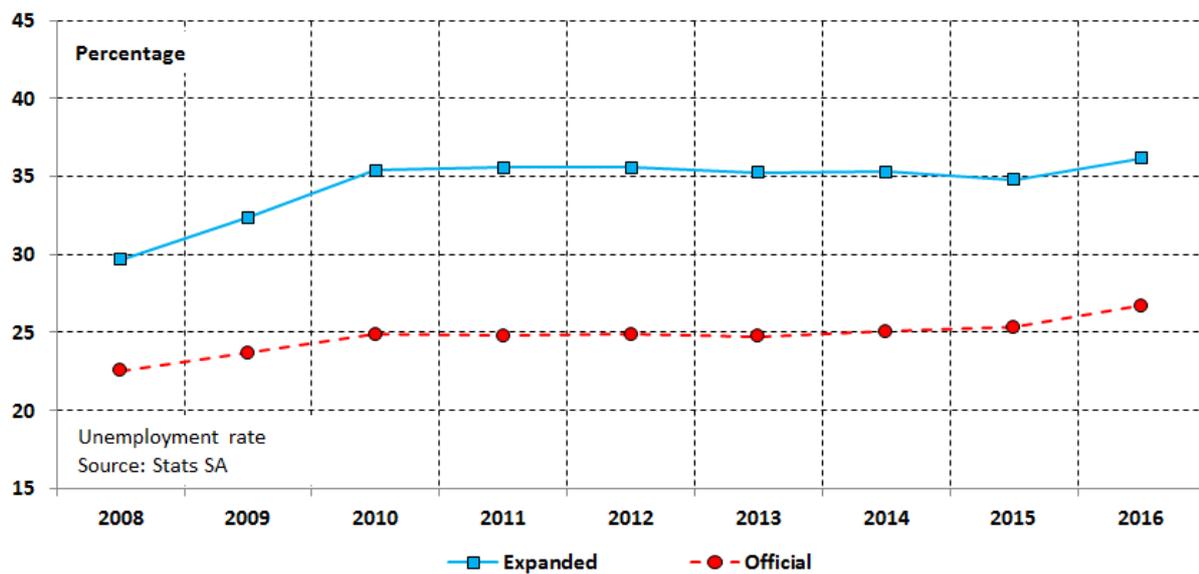


Figure 9 – Number of unemployed (South Africa)

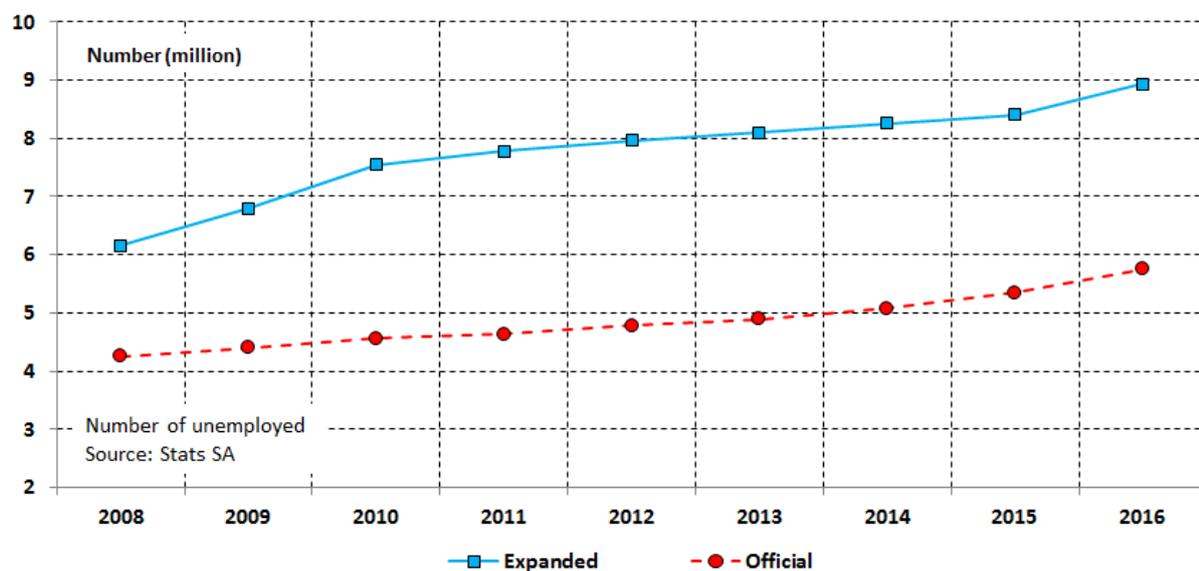
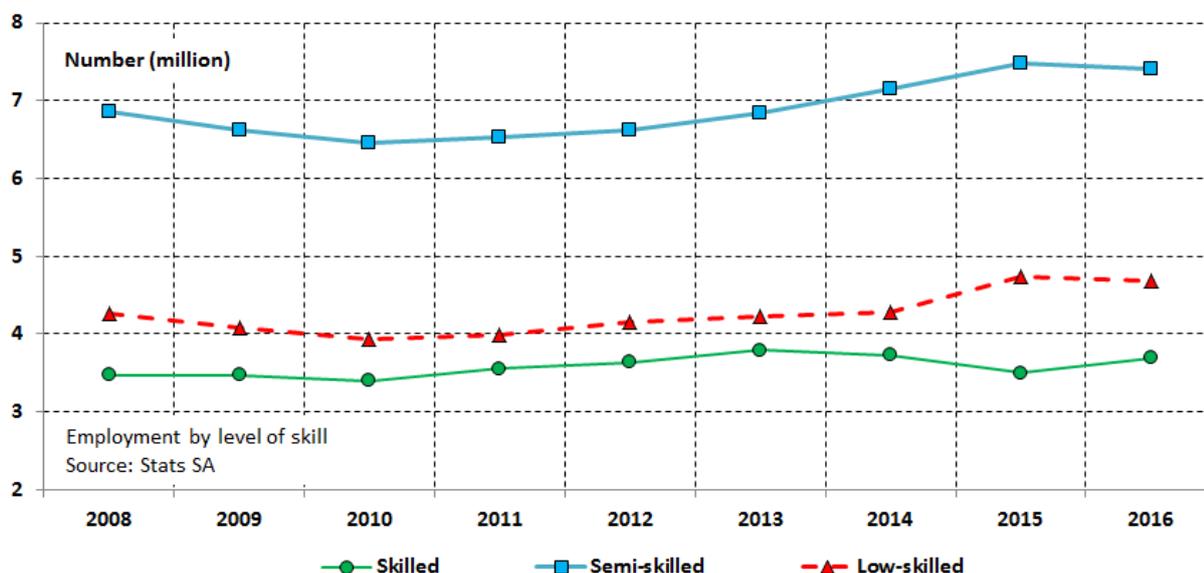


Figure 10 shows the skills profile of employment for the period 2008–2016. In each category (skilled, semi-skilled and low-skilled) there was an increase, but the increase was insufficient to absorb the growing numbers of people entering the labour force, leading to the higher unemployment levels described above.

The downward trend in the number of skilled workers during 2014 and 2015 (Figure 10) sits uncomfortably in comparison with the NPC’s 2030 vision for ‘skilled labour becoming the predominant feature of the labour force’ (2012: 157). As a percentage of total employment, skilled employment fell from 25,5% in 2013 to 23,4% in 2016. Inadequate skills are a severe obstacle to job creation. Education and skills development are discussed in section 6.4.

Figure 10 – Employment by level of skill (South Africa)



South Africa’s labour market woes are closely associated with its low rate of economic growth.

6.2 Economic growth

In section 3.2 South Africa’s demographic transition and economic growth rates were compared with 12 countries in East Asia and Latin America between 1960 and 2015. South Africa’s long-term growth performance was poor by comparison with most of the countries shown (see Table 2 and Figures 3 and 4). More recently, just prior to the global economic crisis of 2008–09, South Africa’s annual real GDP growth exceeded 5% for three consecutive years: 5,3% in 2005, 5,6% in 2006, and 5,4% in 2007. After the slump of 2008–09 (Figure 11), annual growth recovered to around 3% in 2010–11, but thereafter weakened again to just 0,3% in 2016. In September 2017, the South African Reserve Bank’s forecast of real GDP growth was 0,6% in 2017, 1,2% in 2018 and 1,5% in 2019 (SARB, 2017).

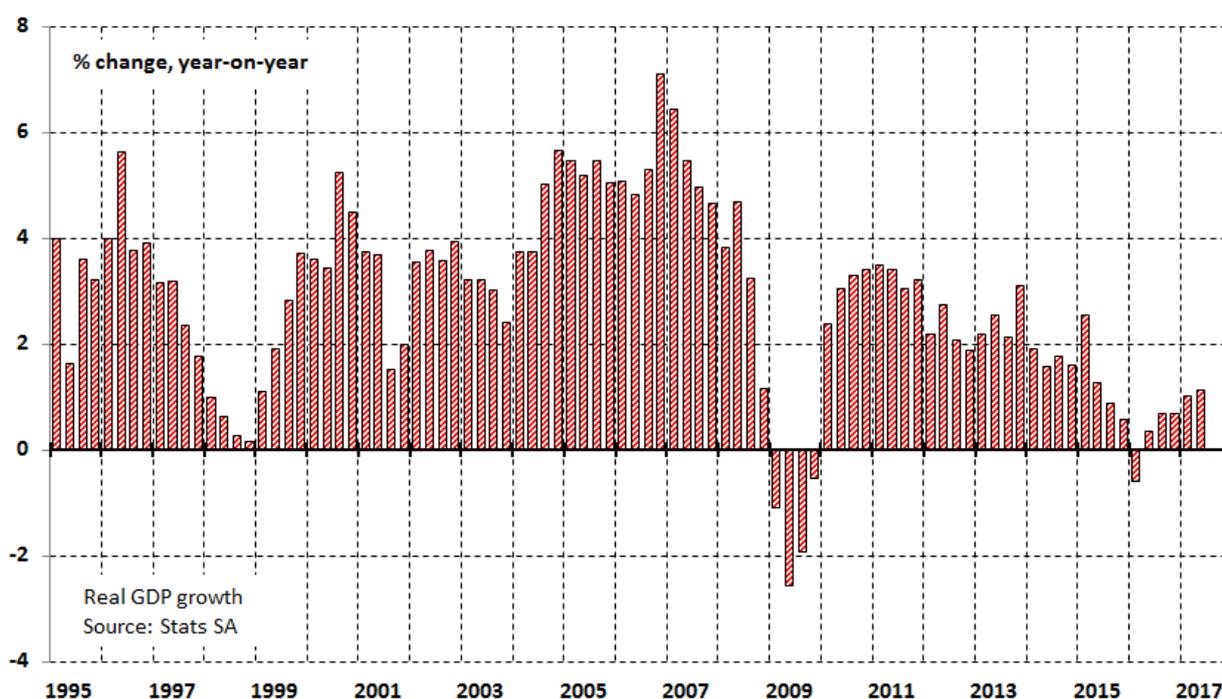
Recent performance in South Africa’s economic growth stands in sharp contrast to the target indicated in the National Development Plan (NDP). The NDP’s real GDP growth objective for the period 2011–2030 is an annual average of 5,4%. While that level of growth is close to what we saw in 2005–2007, in the current environment it looks remote. ‘South Africa has made impressive economic and social progress in the past two decades. Yet, deep-rooted structural problems — infrastructure bottlenecks, skill mismatches, and harmful insider-outsider dynamics — are holding

back growth and exacerbating unemployment and inequality' (IMF, 2016). The International Monetary Fund has projected annual growth of 1% in 2017, 1,2% in 2018, 1,7% in 2019, and 2,2% in each of the three years 2020–2022 (IMF, 2017).

The NPC's assessment of South Africa's poor economic growth (2012: 110) is that the country 'is in a low growth, middle income trap. There are four key features of this trap that serve to reinforce each other. These are:

- Low levels of competition for goods and services
- Large numbers of work seekers who cannot enter the labour market
- Low savings
- A poor skills profile.'

Figure 11 – Real GDP growth (South Africa)

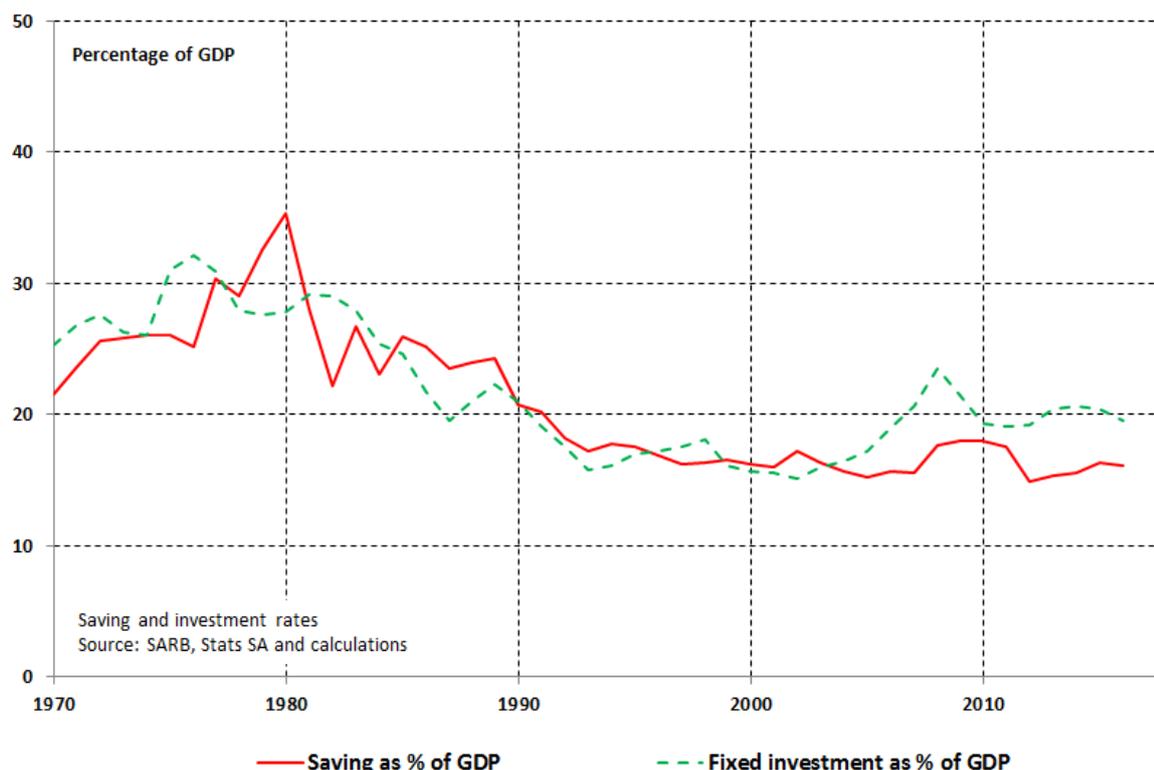


The IMF's country report on South Africa of July 2017 saw little potential for fiscal or monetary policy as drivers of economic growth. 'With government debt projected to reach 56 percent of GDP in 2020 and inflation projected marginally below the upper end of the 3–6 percent target band for the remainder of 2017 and in 2018, room for macroeconomic stimulus is limited' (IMF, 2017). Regarding structural reforms, the IMF stated (ibid.):

'Reforms are urgently needed to reignite growth and render it more inclusive. In product and service markets, such as power generation, telecommunications, and transportation, fostering entry by new firms would reduce costs for a wide range of businesses, supporting an increase in output as well as job creation. In the labor market, there is a need for wage setting to become more reflective of firm-specific circumstances. Introduction of the national minimum wage, expected in mid-2018, could help millions of employees; its impact on jobs should be monitored, standing ready to take complementary measures to support small firms or youth. In the financial sector, ongoing reforms to the prudential and resolution framework should be brought to fruition. Greater financial inclusion is needed to provide affordable credit to small firms and low-income households.'

The low savings constraint identified in the NDP relates to the need for higher rates of investment. To achieve the high rates of economic growth targeted in the NDP, the NDP indicated that savings and fixed investment (gross fixed capital formation) should increase to 25% and 30% of GDP, respectively. However, in 2016 the savings ratio was just 16% and the investment ratio 20% (Figure 12).

Figure 12 – Saving and investment rates (South Africa)



South Africa's low rate of saving is all the more concerning in that the 'second' demographic dividend relies on an increase in saving: 'In addition to [a] first dividend based on a productive labor supply, a possible second dividend results from the savings and investments of the bulge cohort as it matures and saves for retirement' (Canning et al., 2015: 5). More specifically, Canning et al. explain the second demographic dividend as follows (2015: 148-9):

'In addition to the jobs payoffs, the demographic transition can potentially increase individual and national saving rates. At the macro level, higher saving rates can lead to higher levels of investments and faster economic growth. At the household level, they imply higher self-insurance and income protection. The demographic transition usually increases saving rates through three main channels. First, income per capita may rise as more public and private resources are put toward education. Second, saving rates become positive when individuals are working and peak in mid-career, such that changes in age structure affect aggregate saving rates even if individual age-specific behavior remains the same. Finally, new cohorts of workers are expected to have fewer children and to live longer than older cohorts. Having fewer children may result in a shift from spending for elder care to financial savings, while a longer life span implies a greater need for savings to finance consumption during a longer period of inactivity during old age.'

Like the South African Reserve Bank and the International Monetary Fund, the Organisation for Economic Co-operation and Development also forecasts low real GDP growth during 2017 (0,6%) and 2018 (1,2%) (OECD, 2017). The OECD's survey of South Africa (July 2017) provides a detailed assessment of the South African economy and measures that should be implemented to improve growth prospects. Its 'key messages' are (2017: 19):

- 'Short-run macroeconomic policies offer limited scope to boost growth. Bold structural reforms are needed to increase access to network sectors and services, and to improve the functioning of the labour market. Improving education quality to tackle skills shortages, reducing the cost of energy and developing transport infrastructure can boost the economy.
- Deepening regional integration in the SADC, with strong leadership from South Africa, will expand market size and open new opportunities for growth. South African firms are well placed to benefit from deeper integration.
- Entrepreneurship is low compared to other emerging economies. The environment for new and small businesses is more difficult than in other countries, but closing these gaps would create badly needed jobs.'

Fedderke and Mengisteab (2017) have estimated a range of 1,9%–2,3% for South Africa's potential rate of annual economic growth over the period 1960–2015. 'However, the evidence suggests that the rate is under considerable pressure. South African potential growth may be headed toward the 1% range' (2017: 161). The authors argue that 'an economy which allows 26%–40% of the labour factor of production to remain unemployed, is not likely to realise sustained rapid growth in output' (2017: 174).

Much of South Africa's imperative for growth in the economy and employment and reaping the benefits of demographic change lies in the country's high levels of poverty and inequality. 'The National Development Plan aims to eliminate poverty and reduce inequality by 2030' (NPC: 24.) Although the state can do much to alleviate poverty and inequality by providing education (section 6.4) and health care (section 6.5) and other forms of social assistance, a large part of the long-term solution lies in inclusive economic growth. But high levels of poverty and inequality may themselves be an obstacle to economic growth if there is a risk of political instability which could, for example, negatively affect confidence in the economy, savings and investment. The 'attendant risks' of poverty and inequality are expressed in the following passage from the NDP (NPC: 110):

'The fragility of South Africa's economy lies in the distorted pattern of ownership and economic exclusion created by apartheid policies. The effects of decades of racial exclusion are still evident in both employment levels and income differentials. The fault lines of these differentials are principally racially defined but also include skill levels, gender and location. Consequently, South Africa has developed into one of the most unequal societies in the world, with very high levels of poverty, carrying all the attendant risks. In addition, the country has failed to reap a demographic dividend by harnessing the potential of a proportionately large cohort of working-age youth.'

Striking evidence of inequality in South Africa is provided by Stats SA's Living Conditions Survey 2014/15. In the highest-income decile, average annual household income was R689 672; in the lowest-income decile, average annual household income was just R6 279 (Figure 13). Social grants play a crucial role in reducing poverty and inequality, but even after taking social grants into account (as in Figure 13), the difference between rich and poor is vast. Figure 14 (IMF: 2017) shows that South Africa's Gini index is high compared with other countries (a higher index indicates higher inequality).

Figure 13 – Average annual household income by income decile, 2014/15 (South Africa)

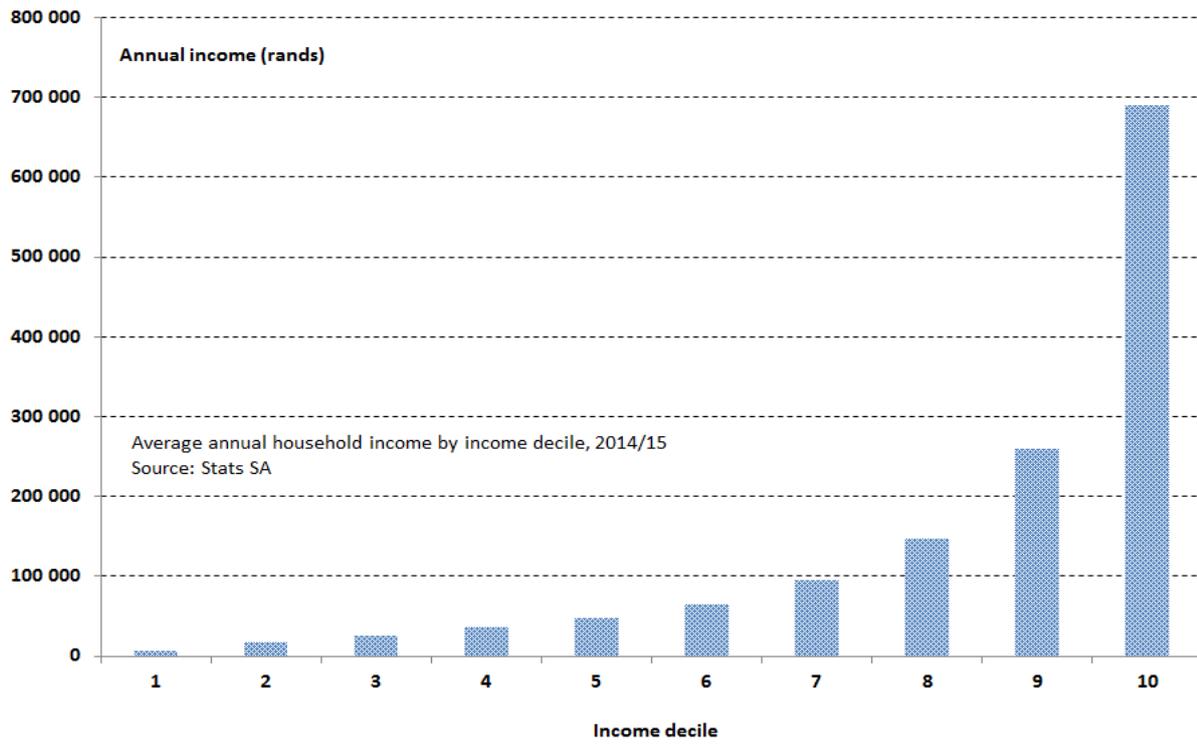


Figure 14 – Gini index

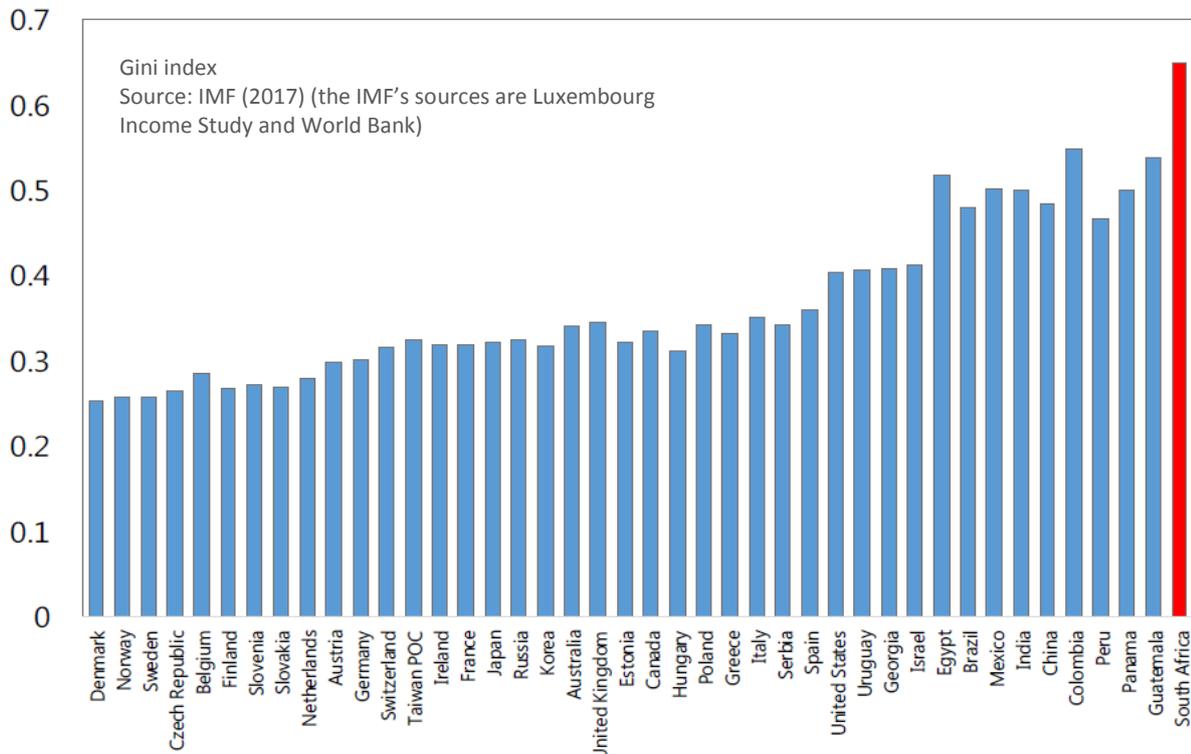


Table 4 shows trends in South Africa's poverty levels between 2006 and 2015. In 2015, 30,4 million individuals, or 55,5% of the population, fell below the upper-bound poverty line of R992 per month (using 2015 prices). Although this was an improvement (i.e. a decrease) compared with 2006, both the number and percentage were up compared with 2011. Approximately a quarter of the population fell below the food poverty line (extreme poverty) in 2015, down from 28% in 2006 but up from 21% in 2011.

Table 4 – Number and percentage of people living in poverty* (South Africa)

	2006	2009	2011	2015
Population below the upper-bound poverty line (R992 per month in 2015 prices)				
Number (million)	31,6	30,9	27,3	30,4
% of total population	66,6%	62,1%	53,2%	55,5%
Population below the lower-bound poverty line (R647 per month in 2015 prices)				
Number (million)	24,2	23,7	18,7	21,9
% of total population	51,0%	47,6%	36,4%	40,0%
Population below the food poverty line (R441 per month in 2015 prices)				
Number (million)	13,4	16,7	11,0	13,8
% of total population	28,4%	33,5%	21,4%	25,2%

Source: Stats SA

* Below the food poverty line, individuals cannot afford enough food to meet the minimum energy requirement for adequate health. The lower-bound poverty line and upper-bound poverty line are derived from the food poverty line, but include non-food items. Between the food poverty line and the lower-bound poverty line, individuals cannot afford both adequate food and non-food items and must sacrifice food to obtain non-food essentials. For more detail, see Statistics South Africa, 2017a.

6.3 Governance

Following the achievement of democracy in 1994 and the introduction of a new constitution in 1996, South Africa made great strides forward in governance across the spectrum. However, over time, greed and corruption bubbled away, and spread, and became a storm: 'All South Africans across the racial, religious, class and political divide are in broad agreement that corruption is rife in this country and that stringent measures are required to contain this malady before it graduates into something terminal,' said Chief Justice Mogoeng Mogoeng in *Helen Suzman Foundation v President of the Republic of South Africa and Others; Glenister v President of the Republic of South Africa and Others* [2014] ZACC 32.

Much of the good work in terms of improved governance during the democratic era became undermined by corruption, which the NPC described as follows (2012: 446):

'The diagnostic report of the National Planning Commission indicates that South Africa suffers from high levels of corruption that undermine the rule of law and hinder development and socioeconomic transformation. Defined as the misuse of an official position for personal gain, corruption occurs in both the public and private sectors. The costs of corrupt practices fall most heavily on the poor because they degrade the quality and accessibility of public services. State systems of accountability have been uneven, enabling corruption to thrive.'

In its analysis of South Africa's thriving corruption, the NPC identifies 'four areas in which policies should be implemented towards an accountable state' (2012: 447). These are building a resilient anti-corruption system; strengthening accountability and responsibility of public servants; creating a transparent, responsive and accountable public service; and strengthening judicial governance and the rule of law.

South Africa's anti-corruption struggle has a long way to go. President Jacob Zuma noted the 'scourge' of corruption in his state of the nation address in February 2015: 'The fight against corruption continues to be taken forward by the Anti-Corruption Inter-Ministerial Committee. Government has in place seven anti-corruption institutions and 17 pieces of legislation which are intended to combat corruption. This demonstrates a concerted effort by government to break the back of this scourge in the country.' In 2017 President Zuma stated that the fight against corruption was continuing (2017a) and that fighting corruption was one of the ANC's key priorities (2017b). In July 2017 Deputy President Cyril Ramaphosa stated, 'Our immediate and urgent task is to root out patronage, corruption, mismanagement, factionalism, materialism and greed.'

Allegations of mismanagement at major South African state-owned enterprises (SOEs) have received much media attention both locally and internationally. Provided that they are free of corruption and well managed, SOEs can play a valuable role in economic transformation and development. 'Good corporate governance of state-owned enterprises is critical to achieving growth objectives and efficient infrastructure delivery' (OECD, 2017: 29). When Fitch Ratings downgraded South Africa's foreign-currency bonds from investment grade to speculative grade in April 2017, it expressed its concern over a possible setback in the governance of the country's SOEs and the associated risk of worsening public finances:

'The downgrade ... reflects Fitch's view that recent political events, including a major cabinet reshuffle, will weaken standards of governance and public finances.

In Fitch's view, the cabinet reshuffle, which involved the replacement of the finance minister, Pravin Gordhan, and the deputy finance minister, Mcebisi Jonas, is likely to result in a change in the direction of economic policy. The reshuffle partly reflected efforts by the out-going finance minister to improve the governance of state-owned enterprises (SOEs). The reshuffle is likely to undermine, if not reverse, progress in SOE governance, raising the risk that SOE debt could migrate onto the government's balance sheet.'

A powerful institution for promoting good governance in South Africa is the office of the public protector, which has powers (in terms of chapter 9 of the country's constitution) to investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice; to report on that conduct; and to take appropriate remedial action. Two of the public protector's reports that have generated much public interest are the Nkandla and state capture reports.

The Nkandla report (number 25 of 2013/14 and titled 'Secure in Comfort') is a 'report on an investigation into allegations of impropriety and unethical conduct relating to the installation and implementation of security measures by the Department of Public Works at and in respect of the private residence of President Jacob Zuma at Nkandla in the KwaZulu-Natal province'. The 447-page report concludes with a range of findings and remedial actions, one of which was the partial repayment of costs of non-security features at Nkandla. This sparked widespread controversy and legal battles that went all the way to the Constitutional Court (which upheld the report).

The state capture report (number 6 of 2016/17 and titled 'State of Capture') is a 'report on an investigation into alleged improper and unethical conduct by the President and other state functionaries relating to alleged improper relationships and involvement of the Gupta family in the removal and appointment of Ministers and Directors of State-Owned Enterprises resulting in improper and possibly corrupt award of state contracts and benefits to the Gupta's family businesses'. The report runs to 355 pages. It concluded, inter alia, that '[the] investigation has proven that the extent of issues it needs to traverse and resources necessary to execute it is incapable of being executed fully by the Public Protector', and as remedial action it instructed, inter alia, '[the] President to appoint, within 30 days, a commission of inquiry headed by a judge solely selected by the Chief Justice who shall provide one name to the President.' No such commission of inquiry has yet been appointed, and an application for a review of the remedial action has been made to the High Court. Press coverage of allegations and speculation about the extent of state capture has become daily and extensive.

Monitoring governance in the public sector is more effective the richer the statistical evidence that is available. 'Measurement of governance and public sector management has become critical to enhance the quality and integrity of the public sector. Stats SA aims to expand the statistical information base over the medium term by introducing the measurement of governance statistics' (Statistics South Africa, 2017b). More specifically, Stats SA plans to expand its Victims of Crime Survey to include social fabric crimes, exclusion, perceptions about constitutional rights, access to justice, corruption, levels of satisfaction with the performance of government, the incidence of criminal victimisation and the circumstances surrounding victimisation from a victim's perspective.

6.4 Education and training

The NPC is clear on the importance of human capital: 'The single most important investment any country can make is in its people' (2012: 296). However, the NPC's assessment of South Africa's education system reflects the need for major improvements, and National Treasury's Budget Review states (2017: 14): 'Education and skills remain at the heart of the country's employment crisis... The lack of opportunities to enter the workforce to gain experience, coupled with poor school education and limited networks, consigns many young work-seekers to long-term unemployment.' The IMF's comment on South Africa's labour market is that 'improving educational attainment and skills will be crucial' (IMF, 2017).

South Africa's school system is characterised by extreme inequalities, from expensive private-sector schools offering excellent education to no-fee public-sector schools where the quality of education is variable. The NPC states that the 'quality of education for most black children is poor' (2012: 48). It found that 'South Africa loses half of every cohort that enters the school system by the end of the 12-year schooling period, wasting significant human potential and harming the life-chances of many young people' (2012: 305).

Regarding higher education, the NPC states that 'the performance of existing institutions ranges from world-class to mediocre' (2012: 50). It finds (2012: 316-7):

'The South African post-school system is not well designed to meet the skills development needs of either the youth or the economy... Though some institutions perform well and have the academic expertise and infrastructure to be internationally competitive, many lack adequate capacity, are under-resourced and inefficient... The data on the quality of university education is disturbing... The need to improve quality is demonstrated by the reports of graduates who are unable to find employment...'

The NPC is also critical of the further education and training system, which it found to be 'not effective. It is too small and the output quality is poor. Continuous quality improvement is needed as the system expands' (2012: 50). 'Approximately 65 percent of college students are unable to find work experience... The college sector is intended as a pathway for those who do not follow an academic path, but it suffers from a poor reputation due to the low rate of employment of college graduates' (NPC, 2012: 320).

The sectoral education and training authorities (SETAs) have also experienced serious difficulties. The SETAs were introduced in 1997 and were intended to develop sector-specific skills. The NPC identified six problems with the SETAs, namely poor governance; inadequate human resources; poor administration and financial management; no proper monitoring and evaluation system; no accurate records of the number of people who have benefited from the system and what the impact has been; and no linkages with the post-school sector.

The New Growth Path framework document of 2011 also recognised the failures of the education system: 'Improvements in education and skill levels are a fundamental prerequisite for achieving many of the goals in this growth path' (Economic Development Department, 2011).

The strategic plan (2015/16–2019/20) of the Department of Basic Education (DBE) juxtaposes its achievements and challenges as follows (2016a: 3):

'Despite Government's considerable investments in schools, our pro-poor funding and targeting mechanisms, and the considerable amounts of investment in the sector, it is clear that low performance still characterises too many of our schools. Although international assessment studies (such as the Trends in Mathematics and Science Study results from 2002 to 2011) show us that we are improving the educational achievement for learners from poor households, there are still too many learners from poor households whose learning outcomes are too low, who are not able to read for comprehension, or who do not get high quality remedial attention, classroom feedback and support, or desirable learning outcomes.'

The DBE's 2016/17 performance plan reports on progress made but at the same time acknowledges the problems that still need to be addressed. 'The current situation is that the quality of education for black children is still largely poor...' (Department of Basic Education, 2016b: 8). More specifically, the plan identifies poor human resource development strategies (teacher development programmes in particular); inappropriate appointment of personnel at different levels (mainly in schools, hence the NPC's call for competency assessments for school principals); poor retention strategy of personnel; poor teaching, leadership and lack of accountability; no consequences for poor performance and wrongdoing; lack of norms and standards, making it difficult to hold provinces accountable for poor delivery and to implement laws and policies uniformly; lack of clearly delineated business processes; and poor audit outcomes.

The OECD (2017: 48) finds that the 'biggest challenge in South Africa is the unequal quality of school education, its low average level and high drop-out rates.' It suggests that gaps in South Africa's entrepreneurial skills are partly the result of low-quality education and lack of work experience, and that shortages and mismatches of skills are barriers to growth and inclusiveness (OECD, 2017: 10–11).

6.5 Health care and family planning

Family planning has come a long way since the 1960s, South Africa's fertility rate having declined from 6,1 in the early 1960s to 2,7 in 2008 and 2,4 in 2017. Information on reproductive health is widely available, although more needs to be done to reduce teenage pregnancies. Stats SA's General Household Survey of 2016 reported pregnancy rates (during the year preceding the survey) of 6,5% for females aged 17; 7,1% for females aged 18; and 10,7% for females aged 19.

However, as in education, so in health care: a minority of South Africans have access to expensive, high-quality services in the private sector, and the majority rely on a public-sector health care system that is in urgent need of reform.

In June 2017 the Department of Health published a white paper on health care reform, National Health Insurance for South Africa: Towards Universal Health Coverage. The national health insurance (NHI) white paper provides a detailed analysis of the problems facing South Africa's health care sector. 'In addition to the high burden of disease, there are other challenges facing the health system. These are to a large extent as a consequence of the inability of the health system to effectively implement the six health systems building blocks of: (a) Leadership and governance; (b) Health care financing; (c) Health workforce; (d) Medical products and technologies; (e) Information and research; and (f) Service delivery' (Department of Health, 2017: 12).

More specifically, structural problems in public-sector health care identified in the NHI white paper include the following (2017: 12–16):

'Despite efforts by government to inculcate a culture of good leadership and governance, the knowledge and skills amongst managers is still very inadequate. Furthermore, weak accountability mechanisms are linked to inadequate, disparate measures and standards for managing performance (good or poor). Poor accountability is also exacerbated by a semi-federal public sector...

Public sector facilities are regularly assessed against core quality standards. This has revealed that there are quality problems in the areas of staff attitudes, waiting times, cleanliness, drug stock outs, infection control, and safety and security of staff and patients...

Quality challenges are aggravated by high levels of inequity due to health expenditure and other resource misalignment between the public and private sectors relative to the populations they serve, and an under-resourced and overburdened public health system... Furthermore, the lack of a coherent unified health information management system, fragmentation and poor leadership at the different levels of care has exacerbated the situation and resulted in suboptimal conditions of delivering quality health services. The significant increases in utilisation due to the high burden of disease, and associated increased patient loads have further compromised the quality of care...

The inequities and poor quality in the health system are exacerbated by a skewed distribution of key health professionals between the public and private sectors. The main contributor to this inequity is the creation of a two-tier healthcare system where the affluent pool their healthcare funds separately from the poor. The shortage of key health professionals is being experienced in the face of the growth of the population that is dependent on public healthcare services, and the increasing burden of disease among the population, and unpredictable inward migration patterns. This has placed an extraordinary strain on public sector health services, and on the staff who work in public sector facilities and has contributed to the very poor health outcomes of South Africans, particularly for the lowest income populations and households...

The health sector is facing increasing costs of medical products and technologies. The main cost drivers in the public sector (other than human resources) are: pharmaceuticals; laboratory services; blood and blood products; equipment; and surgical consumables. These cost drivers are wasteful

and adversely impact on efficient and effective service provision. Inefficiencies in pharmaceutical supply chain, annual inventory procurement costs, medicine stock-outs, trade-deficits on unaccounted stock, and expired medication are common. Lack of human and electronic inventory management systems and replenishment cycles, data and statistical acquisition, as well as poor monitoring of hospital support services such as security, laundry and catering services contribute to these high costs... One of the other key cost drivers in the public health sector is the costs of laboratory services...

The South African health system is two tiered and fragmented. Almost 50% of Total Health Expenditure (THE) is spent on 16% of the population covered by medical schemes whilst the other 50% is spent on 84% of the population in the public sector. The population that accesses services in the public sector is usually poor, rural and encumbered with a high burden of disease. Consequently, financial resource allocation and health care expenditure is not matching with the needs of the majority of the population...

A major characteristic of the South African health system is the fragmentation of funding pools within and between the public and private sectors... The effect of the fragmentation is that a majority of South Africans, particularly the unemployed and poor, are not provided with adequate financial risk protection from catastrophic health expenditures and their health needs are not adequately met. Fragmentation is also a key driver of inequality and contributes to inequity in the distribution of health benefits.'

7. In search of South Africa's demographic dividend by population group

7.1 Four population groups

A legacy of South Africa's racial past is that race remains prominent in socio-economic discourse. Four broad population groups are shown in official statistics, namely black African, coloured, Indian/Asian and white. In 2017 the black African population was 45,66 million, accounting for almost 81% of the total population (Table 5).

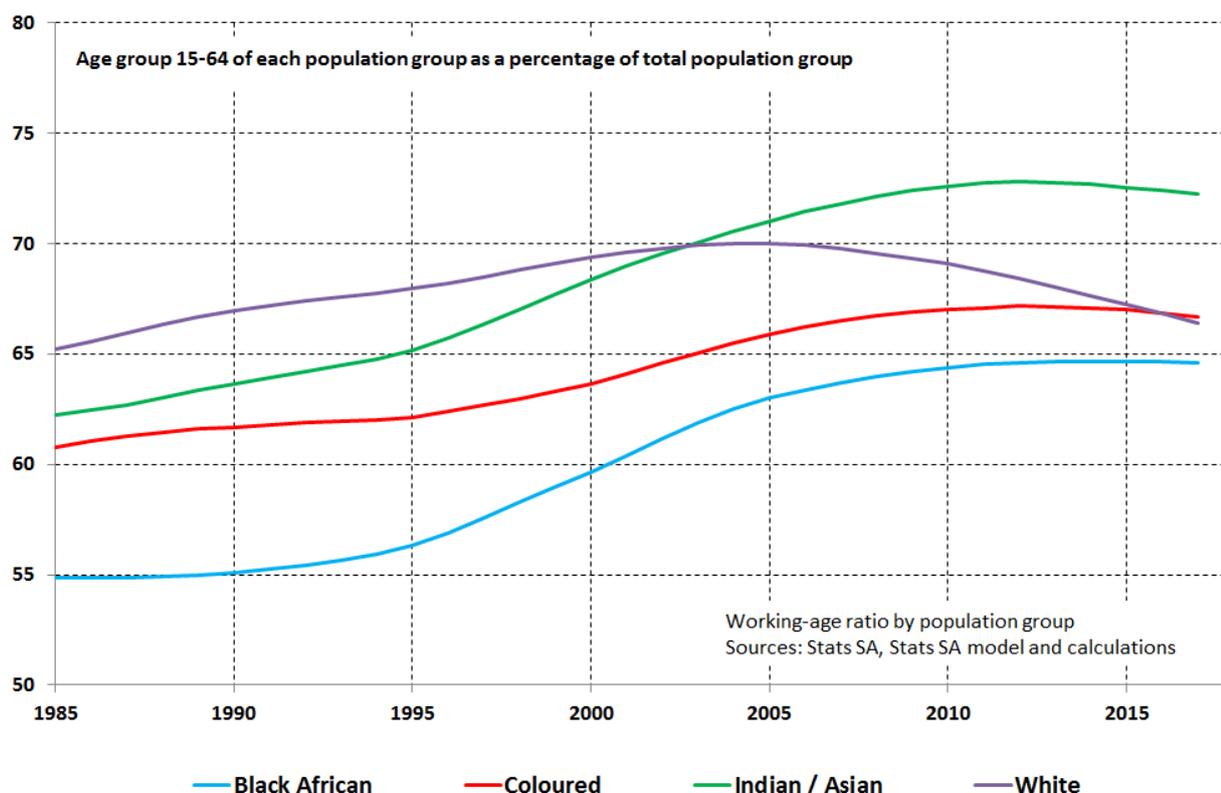
Table 5 – Population by population group (South Africa)

	2002		2017		Change	Average annual growth rate 2003–2017
	Million	% of total	Million	% of total	Million	% per year
Black African	35,88	78,1	45,66	80,8	9,78	1,6
Coloured	4,16	9,1	4,96	8,8	0,80	1,2
Indian/Asian	1,15	2,5	1,41	2,5	0,26	1,3
White	4,73	10,3	4,49	7,9	-0,24	-0,3
Total	45,92	100	56,52	100	10,60	1,4

Source: Stats SA

7.2 Working-age ratios

Figure 15 shows South Africa's working-age ratios by population group since 1985. The patterns are similar amongst black Africans, coloureds and Indians/Asians, although the levels are quite different. Whites peaked at approximately 70% in 2005, which is earlier than the other groups. On the latest estimates available, black Africans have levelled out just below 65%.

Figure 15 – Working-age ratio by population group (South Africa)

7.3 Poverty, income and expenditure

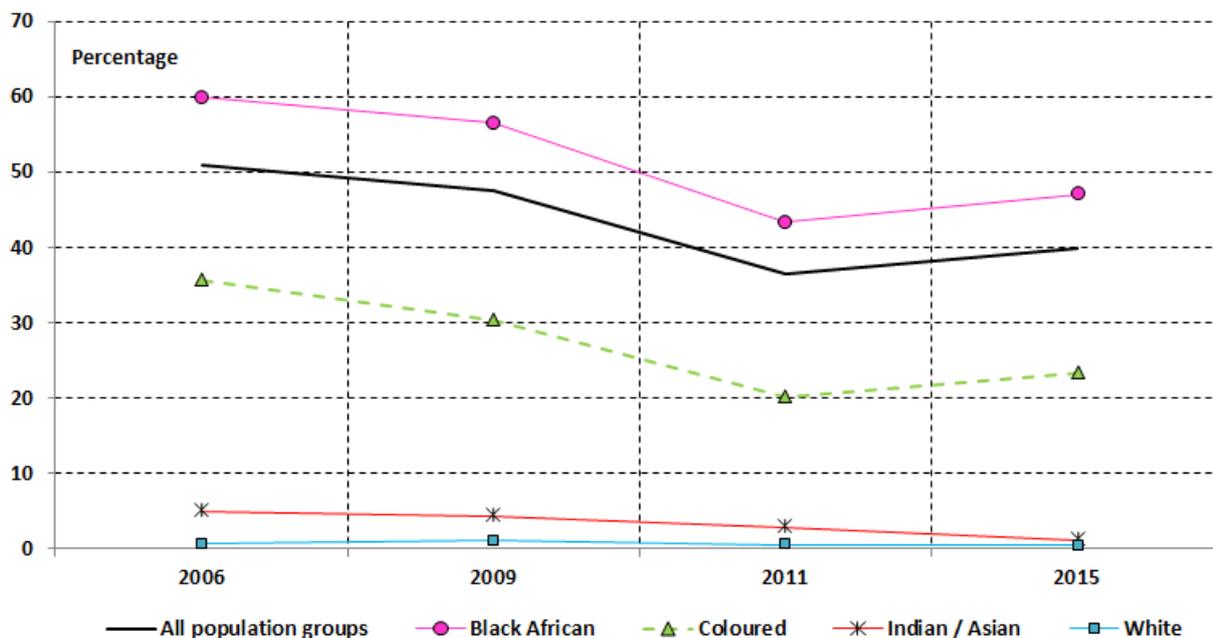
Central to the literature on the demographic dividend is the relationship between demographic transition and GDP. There are no estimates for South Africa's GDP by population group, but comparisons based on poverty, income and expenditure can be made using information from Stats SA's household income and expenditure surveys (section 7.3), while the Quarterly Labour Force Survey contains rich detail on the labour market (section 7.4).

Figure 16 shows the percentage of each population group living in poverty as determined by the lower-bound poverty line. It reveals poverty as extremely low amongst whites (0,4%) and Indians/Asians (1,2%) in 2015, whereas it was much higher amongst coloureds (23,3%) and a staggering 47,1% amongst black Africans. Between 2011 and 2015, poverty decreased amongst whites and Indians/Asians, whereas it increased amongst coloureds and black Africans.

In 2015, 40% of the total population fell below the lower-bound poverty line (Figure 16), 55% fell below the upper-bound poverty line, and 25% fell below the food poverty line (Table 4). The government plays a crucial role in alleviating poverty through social grants and free or low-cost municipal services, health care and education. Inequalities in education and the labour market more generally will be discussed in some detail in section 7.4. Regarding health care, Stats SA's General Household Survey confirms the point made earlier that a minority of South Africans have access to health care services in the private sector, while the majority relies on the public sector. In 2016, 72% of whites were members of a medical aid (medical insurance) scheme, compared with

11% of black Africans, 20% of coloureds and 50% of Indians/Asians (and 17% for all population groups). There will inevitably be exceptions, but in general the quality of medical care increases with the quantity of medical insurance.

Figure 16 – Percentage of each population group living below the lower-bound poverty line (South Africa)



Percentage of each population group living below the lower-bound poverty line
Source: Stats SA

In 2005/2006, average household income was R280 870 in white households (population group of household head) compared with just R37 711 in black African households, a ratio of 7,4 (Table 6). The ratio for expenditure was 6,5 (R198 632 compared with R30 509). By 2014/2015 these ratios had fallen to 4,8 (income) and 5,2 (expenditure).

Table 6 shows relatively high growth in black African household income (147%) and expenditure (122%) between 2005/2006 and 2014/2015. Is there a demographic dividend to be detected here for black Africans? Probably the two main factors underpinning high black African growth in income and expenditure were a low base and improved opportunities. Following centuries of deprivation and oppression, the era since 1994 has given the non-white population groups opportunities in the public and private sectors of the economy which were previously unavailable to them. Not only were barriers removed, but black economic empowerment programmes have been actively promoted (see box below regarding the Malaysian experience of affirmative action). Economic and social infrastructure services at municipal, provincial and national levels, for so long so heavily skewed in favour of the white population, have been increasingly rolled out to the population at large. With these measures driving catch-up effects, it is difficult to find a demographic dividend effect for black Africans in income and expenditure growth rates that have been higher than those in other population groups, particularly when the racial disparities in levels remain so vast.

Furthermore, despite high expenditure growth, black Africans' expenditure choices are significantly more constrained than those of whites. For example, black Africans devote a relatively high

proportion of their household expenditure to necessities such as food and clothing/footwear. Table 7 shows that although the proportion (of their total expenditure) that black Africans spent on food fell from 19% in 2005/2006 to 15,5% in 2014/2015, it remained well above the proportion spent by whites (5,8% in 2015/2016). In 2014/2015 the proportions for clothing/footwear were 6,7% (black African) and 1,9% (white).

Table 6 – Average annual household income and expenditure (South Africa)

	Black African¹	Coloured¹	Indian/Asian¹	White¹	All groups	Ratio of highest (white) to lowest (black African)
Income						
2005/2006	37 711	79 423	134 543	280 870	74 589	7,4
2014/2015	92 983	172 765	271 621	444 446	138 168	4,8
% change	147%	118%	102%	58%	85%	
Expenditure						
2005/2006	30 509	58 805	104 533	198 632	56 152	6,5
2014/2015	67 828	124 445	195 336	350 937	103 293	5,2
% change	122%	112%	87%	77%	84%	

¹ Population group of household head

Source: Stats SA

Table 7 – Expenditure on food, clothing/footwear and public transport by road as a percentage of total household expenditure, by population group (South Africa)

	2005/2006			2014/2015		
	Food	Clothing/footwear	Public transport by road	Food	Clothing/footwear	Public transport by road
Black African ¹	19,0	7,4	6,0	15,5	6,7	5,4
Coloured ¹	15,2	6,0	2,7	13,7	5,0	2,6
Indian/Asian ¹	7,8	4,4	1,3	8,2	3,6	1,4
White ¹	5,7	2,6	0,3	5,8	1,9	0,2

¹ Population group of household head

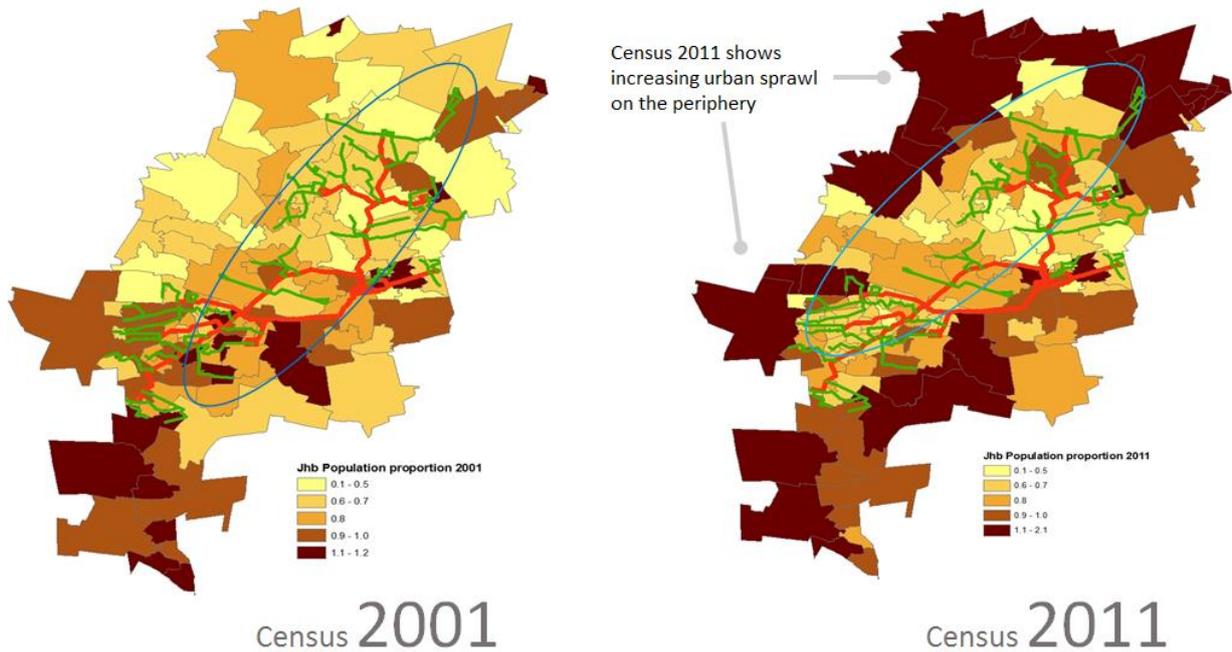
Source: Stats SA

Table 7 also shows that black Africans spend a high proportion of their budgets on public transport by road (5,4% of expenditure in 2014/2015). For them it is a necessity. Transport is a necessity for other groups as well, but they have more choices, and the line between necessity and luxury (expensive cars) may be blurred.

Black Africans also find themselves at a disadvantage in terms of travelling times between home and work and between home and school. Stats SA's household travel survey of 2013 found that travelling times for black Africans were longer than those for whites, across all forms of travel

(train, bus, taxi, car, walking) and for both workers and learners. For example, average travel times (in minutes) for black African workers were 57 (taxi passenger), 50 (car passenger) and 47 (car driver); corresponding times for whites were 55, 34 and 39. Black African learners had average travel times (in minutes) of 50 (taxi passenger), 39 (car passenger) and 31 (walking); corresponding times for whites were 36, 25 and 16. These findings are the result of most black African homes being located on the periphery of urban areas whereas most white homes are nearer the centre. Comparisons of settlement patterns between the population censuses of 2001 and 2011 show increasing urban sprawl on the periphery (Figure 17), a trend which does not bode well for travelling times between home and work or school.

Figure 17 – Settlement patterns in Johannesburg



Source: Censuses and calculations

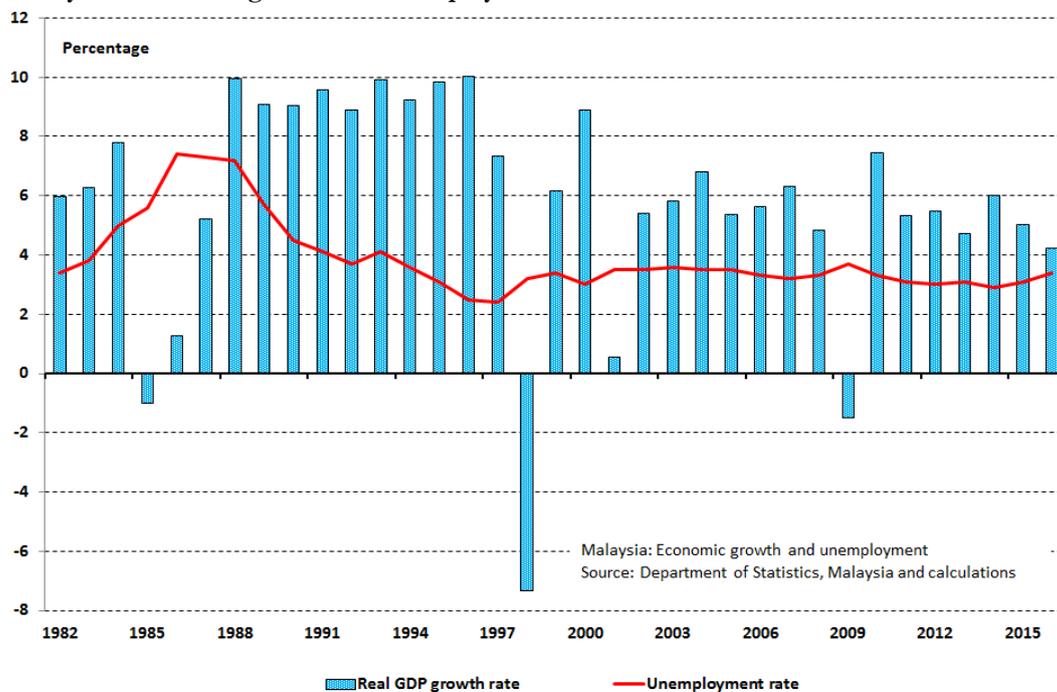
What can the labour market tell us about the relative performance of the four population groups, over time and in terms of differences between levels? The short answer is that labour market conditions are heavily stacked against black Africans in terms of achieving a demographic dividend. The longer answer is the subject of section 7.4.

Affirmative action in Malaysia

Malaysia has a long history of affirmative action (Guan, 2005; Lee, 2012). Early efforts in affirmative action in the 1960s were unsuccessful, but they were substantially strengthened in the New Economic Policy of 1971. They were implemented to promote the interests of the *majority* ethnic population, the Malays, whose economic status lagged well behind that of the Chinese minority population. There is a similarity here with South Africa, where black economic empowerment policies have been implemented in support of the *majority* population group, namely non-whites who were economically crippled by apartheid and who were left way behind the white minority in terms of economic attainment.

With Malaysia’s long history of strong economic growth and low unemployment (see graph), Malays were well placed to benefit from the added support from affirmative action measures and a demographic transition and dividend. ‘Ethnic preferential policies have greatly enhanced Malay participation in the economy and higher education. The economic disparities between the Malay and non-Malay communities have narrowed significantly. Malay horizontal and vertical participation in the economy has expanded substantially, especially in the modern sector. Malay enrolment in higher education, including university, has exceeded the 55 per cent quota reserved for them. Thus, the ethnic preferential policies have created a more broad-based differential Malay employment structure and successfully fostered a growing Malay middle-class and corporate and business community’ (Guan, 2005).

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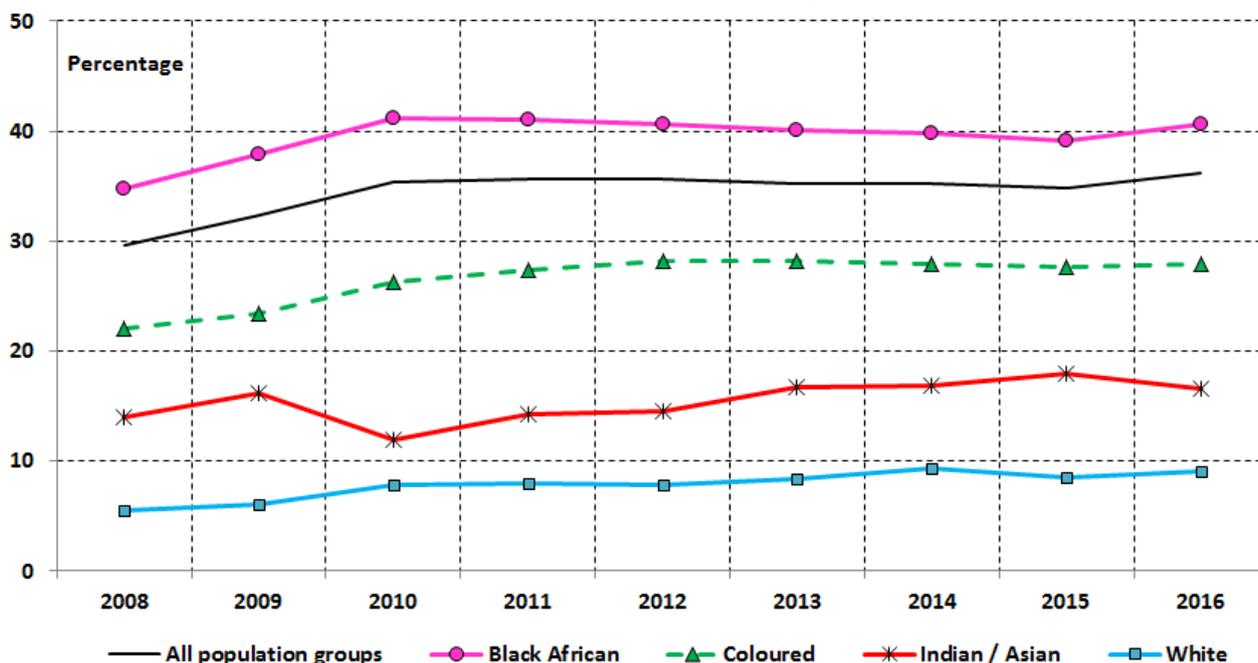
However, Lee’s detailed analysis (2012) of the complexities and nuances of Malaysia’s affirmative action experience shows that it has not been problem-free. ‘Affirmative action, in the form of preferential programmes favouring Malaysia’s Bumiputera* population, has been central to the nation’s efforts to bridge racial divides’ (Lee: 2012, 230). ‘Although the quantity of tertiary-certified Bumiputeras has grown steadily, predominantly through public institutions where racial quotas are enforced, available literature and this study’s empirical enquiry find evidence that shortcomings in the quality of Bumiputera public institute graduates severely diminish the efficacy of affirmative action. Unemployment rates of the degree-holding workforce have risen, disproportionately among Bumiputera, and significantly due to deficiencies in general criteria, such as language and communication skills and self-confidence. Bumiputera representation in managerial and professional positions robustly increased over the 1970s and 1980s, but these shares remained more or less static from the mid-1990s until the present. Entry into these positions also continues to depend on the public sector, where Bumiputeras are over-represented’ (Lee: 2012, 249).

* ‘The Bumiputera, or “sons of the soil,” consist of Malays (54% of the national population), who are mostly on Peninsular or West Malaysia, and other indigenous groups termed non-Malay Bumiputera (12%), who are predominantly in the East Malaysian states of Sabah and Sarawak’ (Lee, 2012: 230).

7.4 Labour market

South Africa’s high unemployment (see section 6.1) is particularly severe amongst the black African population. There are vast differences between population groups in terms of unemployment, with little change in the pattern between them in recent years (Figure 18). On the expanded definition there were 8 million unemployed black Africans in 2016 (an unemployment rate of 41%). There were 0,6 million coloureds unemployed (28% unemployment rate), 0,1 million Indians/Asians (17%), and 0,2 million whites (9%). Unemployment is particularly severe amongst black African youth aged 15 to 34, with over 5 million unemployed in 2016 (53% unemployment rate).

Figure 18 – Unemployment rate (expanded) by population group (South Africa)



Unemployment rate (expanded) by population group
 Source: Stats SA

The average growth in South Africa’s net employment (all population groups) in the five-year period 2012–2016 was 342 000 jobs per year; in the same period the average growth in the labour force (expanded definition) was 573 000 per year. The difference is 231 000 per year (the annual excess of labour force growth over net job creation), highlighting the urgent need for job creation strategies.

Closely associated with employment and unemployment outcomes is the state of education. The failures of South Africa’s education system are felt mostly severely in the black African and coloured populations. In 2016, 58% of the black African and 57% of the coloured labour forces had not achieved matric. Corresponding proportions for the Indian/Asian and white groups were 23% and 13%, respectively (Table 8; Quarterly Labour Force Survey). Between 2008 and 2016, the proportion of the white labour force with a tertiary qualification increased from 42% to 45%, while the corresponding change in the black African labour force was from 9% to 12%.

Table 8 – Population groups by highest level of education (South Africa)

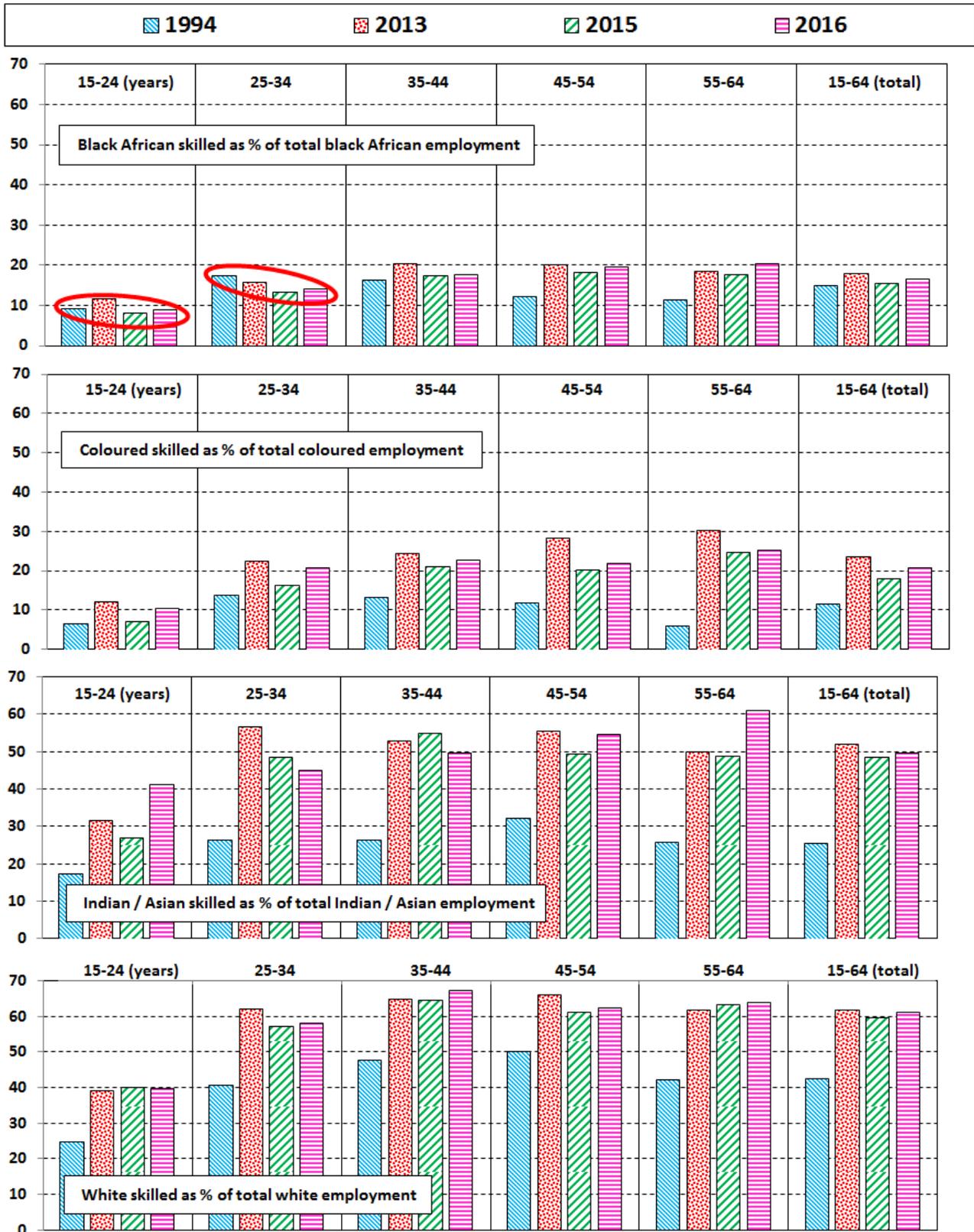
		Less than matric	Matric	Tertiary	Other	Total
		% of black African labour force (expanded)				
Black African	2008	64	25	9	2	100
	2012	60	28	11	1	100
	2016	58	29	12	1	100
		% of coloured labour force (expanded)				
Coloured	2008	61	29	9	1	100
	2012	57	31	11	1	100
	2016	57	31	11	1	100
		% of Indian/Asian labour force (expanded)				
Indian/Asian	2008	29	47	24	0	100
	2012	23	48	28	1	100
	2016	23	51	26	0	100
		% of white labour force (expanded)				
White	2008	15	42	42	1	100
	2012	16	41	42	1	100
	2016	13	41	45	1	100

Source: Stats SA and calculations

Stats SA's General Household Survey provides the proportion of persons aged 18 to 29 enrolled at higher education institutions. In 2016 the proportions by population group were 3,3% (black African), 3,5% (coloured), 18,8% (Indian/Asian), and 17,5% (white).

Figure 10 (section 6.1) shows the drop in skilled employment in 2014 and 2015 as a proportion of total employment. This is explored in greater detail in Figure 19 by population group and age group and with reference to the proportions in 1994, 2013 (generally the peak), 2015 (generally down from 2013) and 2016 (generally up from 2015).

Figure 19 – Skilled employment as a percentage of total employment within each population group, by age group (South Africa)



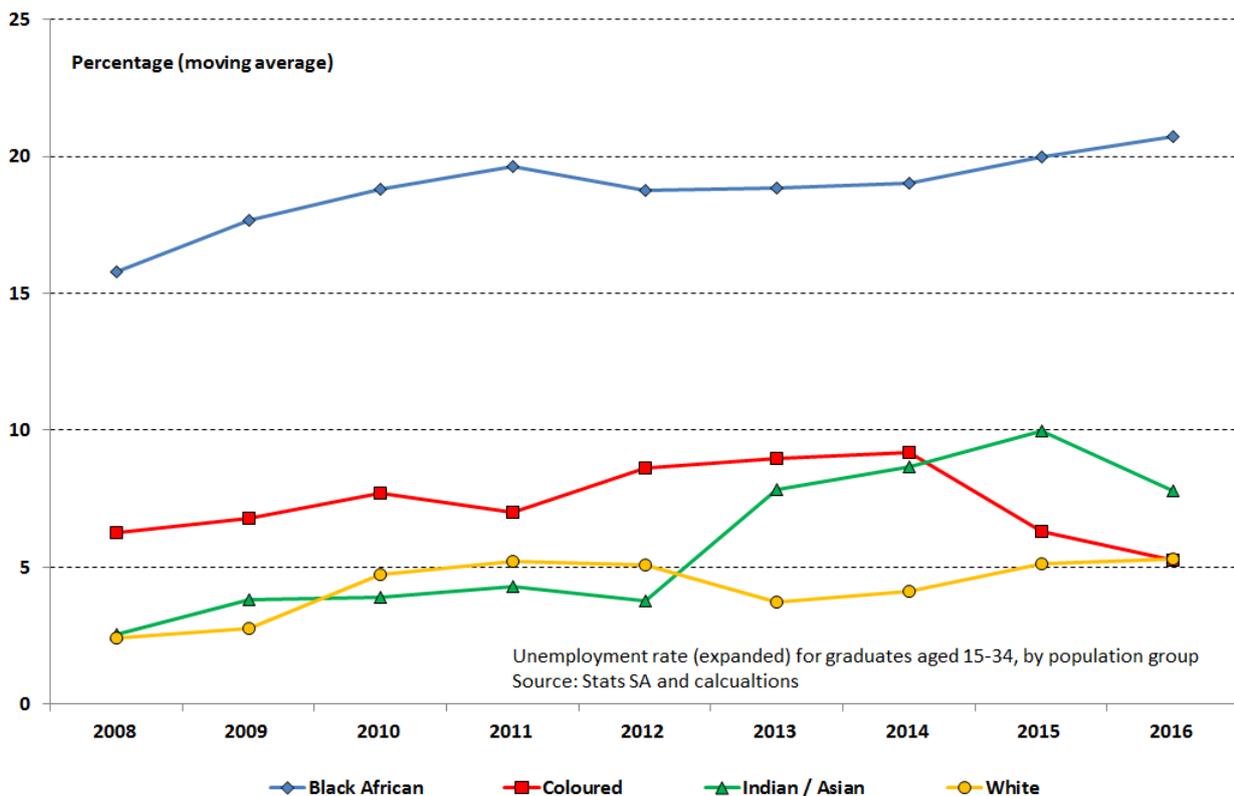
Source: Stats SA and calculations

For all age groups combined, i.e. 15–64 years, there were clear gains in skills between 1994 and 2016 in all population groups except black African. Coloureds increased from 11,6% to 20,6% (i.e. coloured skilled employment as a percentage of total coloured employment). Indians/Asians increased from 25,2% to 49,4% and whites increased from 42,2% to 61%. Black Africans increased marginally from 15,1% to 16,5%.

Amongst the youth, i.e. age groups 15–24 and 25–34, there were increases in skilled employment (as a proportion of corresponding total employment) between 1994 and 2016 in all population groups except black African (Figure 19). The black African proportions fell from 9,3% to 9% (15–24) and from 17,5% to 14,1% (25–34) (circled in red in Figure 19). Between 2013 and 2015, not only did the proportions decline, but the absolute numbers of young black Africans in skilled employment declined by 25 000 (15–24) and 55 000 (25–34). There were gains in 2016 in proportions and absolute numbers, but these were relatively small.

Even within the educated elite, namely graduates, the differences in unemployment rates are large among young people (ages 15–34). Figure 20 shows much higher unemployment amongst young black African graduates compared with the other population groups, with the gap getting worse over time. The trend raises concerns about the quality of qualifications and/or labour market discrimination.

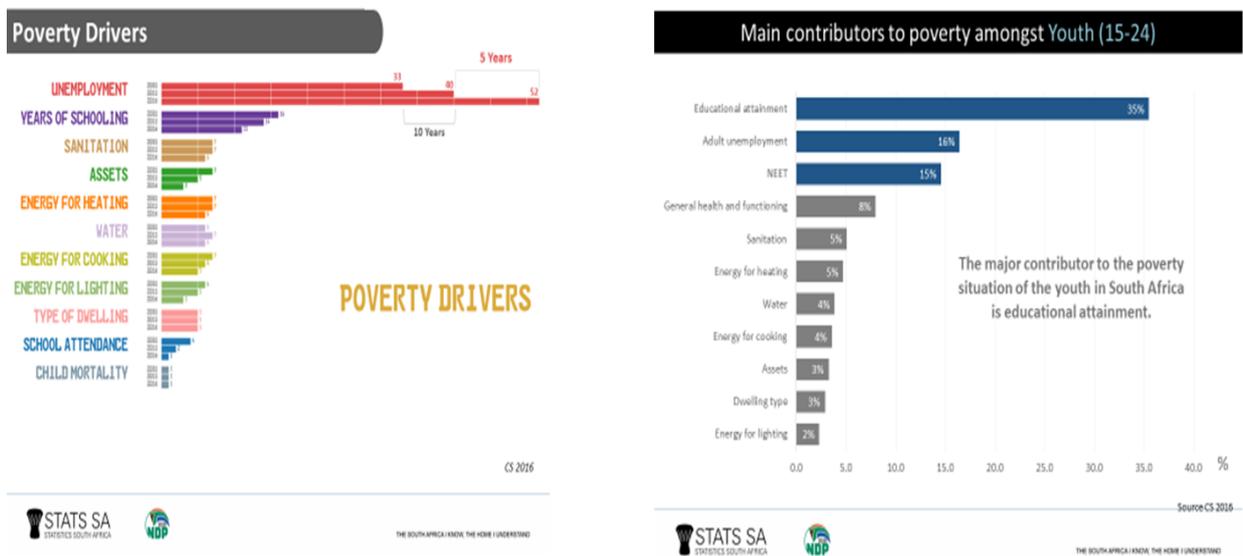
Figure 20 – Unemployment rate (expanded) for graduates aged 15–34, by population group (South Africa)



7.5 Drivers of poverty

According to the Community Survey of 2016, unemployment as a driver of poverty was growing the fastest; jointly with poor educational attainment these accounted for about 60% of drivers of poverty (Figure 21). And amongst the youth, the main contributor to poverty is lack of educational attainment.

Figure 21 – Drivers of poverty (South Africa)



However, a ranking of perceptions (Community Survey 2016) regarding the challenges that people face shows inadequate educational facilities as quite far down the list at number 15 (Figure 22). This poses interesting questions for leaders at all levels of government. The ‘fees must fall’ campaign at South African universities, in the context of many other funding requests across the fiscal spectrum, asks the country to confront difficult choices about the allocation of financial resources. If an important dimension of sustainable development is quality education for all, but citizens’ perceptions are inconsistent with that (because their attention is focused on more immediate needs like water that is clean, accessible and affordable), politicians and civil servants must work extra hard to achieve outcomes that will serve the long-term interests of communities while at the same time demonstrating their commitment to resolving the burning issues of the present. The preface to this report sets out the concept of the Overton window. Considering how complex society can be, particularly in a country of great diversity such as South Africa, there may be many Overton windows. For instance, the idea of ‘quality education for all’ alone is quite complex. It does not mean that everyone should receive the same education – not all of us can or wish to reach PhD status; if quality of education for all, or some variation thereof, is a policy goal, it must surely be pursued according to people’s abilities and preferences. Leaders face the difficult question of where their Overton windows lie in the context of socio-economic challenges of addressing inequality, unemployment and poverty.

Figure 22 – Ranking of perceived municipal challenges (South Africa)



8. Summary and conclusion

The potential for a demographic dividend arises when a country experiences a long-term increase in its working-age ratio, which is the percentage of its population that is of working age (15–64 years). With more labour resources available for production and fewer resources (at least in relative terms) required for taking care of the young and elderly, there could be a substantial stimulus to economic growth.

Six East Asian economies that experienced a demographic transition (an increase in their working-age ratios) between 1960 and 2015 were China, Indonesia, Malaysia, Singapore, South Korea and Thailand. All achieved high rates of economic growth over the same period. Six Latin American economies that also experienced a demographic transition, similar though generally not as strong as the East Asian economies (1960–2015) were Brazil, Chile, Colombia, Ecuador, Peru and Venezuela. However, economic growth rates in the six Latin American economies were much lower compared with the six East Asian ones.

The comparison between East Asia and Latin America suggests that a favourable demographic transition is not sufficient to produce high economic growth. To maximise demographic potential, supportive socio-economic conditions need to be in place. These include low unemployment; policies that successfully support economic growth (and create jobs); good governance; education and training; and health care and family planning. 'Several East Asian governments promulgated far-sighted education, health, labor, and economic policies that allowed them to reap the demographic dividend' (Canning et al., 2015: 49).

South Africa's rate of population growth slowed from an average of 2,6% per year in the 1960s and 1970s to 1,5% in 2010–2017. There were long-term declines in mortality and fertility rates, there was a narrowing of the population pyramid base, and the working-age ratio increased from 55% in 1960 to 65% in 2010. These changes reflect a demographic transition in favour of a demographic dividend. However, the transition was not as strong as those in the East Asian and Latin American examples discussed earlier, and there is extensive statistical and other evidence that the supporting conditions needed to maximise the potential benefits of demographic transition have been sadly lacking in South Africa.

South Africa has suffered high unemployment for many years. In recent years the numbers of unemployed have grown, and they continue to grow. With 9,3 million people unemployed in the first half of 2017 (or a 36,5% unemployment rate on the expanded definition), and a skills profile that has seen little improvement since 2008, the potential benefits of a larger working-age population are completely undermined. A demographic transition, in the form of a growing working-age population, could become a curse rather than a blessing. 'In the worst case scenario ... a demographic transition could translate into an army of unemployed youth and significantly increase social risks and tensions' (Drummond et al., 2014: 4). 'If not managed, the perfect window could become the perfect storm' (NPC, 2012: 99).

South Africa's historical GDP growth performance suggests that its demographic transition has very little, if anything, to show for itself in terms of producing a demographic dividend. Obstacles to an improvement in economic growth include the destabilising effects of poverty and inequality; widespread corruption and other forms of poor governance; and inadequate public-sector education and health care. The opportunity for a second demographic dividend in the form of higher saving and investment and a further boost to economic growth seems equally elusive.

On a more detailed examination of the traditional demographic dividend issues by population group, it is clear that South Africa's problems lie in the country's apartheid legacy and insufficient progress in addressing that legacy since 1994. Each of the four population groups underwent demographic transitions, with whites peaking first in terms of the working-age ratio, followed by Indians/Asians (at a higher level), and coloureds and black Africans following (at lower levels). The data show that the majority black African population, compared with the other population groups, has low household income and expenditure, high poverty, low health care, low education, low skills, and high unemployment. Even amongst the educated elite, namely graduates, the differences in unemployment rates are large among young people (ages 15–34): young black African graduates have much higher unemployment compared with the other population groups, and in recent years the gap has grown. In 2014 and 2015, young black African skilled employment declined as a proportion (of total young black African employment) as well as in actual number; in 2016 there was an improvement, but it was small. These patterns raise burning questions about the quality of tertiary education that black Africans are receiving and the possibility of labour market discrimination.

A demographic dividend is not a strategy for economic growth. Rather, it is the additional economic growth associated with a demographic transition, provided that the economy is already sufficiently strong to support low unemployment and that appropriate socio-economic conditions are in place, such as quality education for the growing number of working-age people to acquire the skills required by employers. Perhaps there were signs of a South African dividend during the high-growth years of 2005 to 2007, but those are a distant memory. The white population group achieved dividends, demographic and otherwise, in its relative prosperity and single-digit unemployment rates: unemployment rates by race are a stark reminder of South Africa's historical hierarchy of the population groups. In 2016, the black African population had unemployment rates (expanded definition) of 41% (total, or 8 million unemployed) and 53% (youth [15–34 years], or 5 million unemployed). During apartheid, dividends for the non-white groups, the vast majority of the population, were entirely out of reach, and their persistently high unemployment rates today carry a heavy price: no demographic dividend still, and possibly none tomorrow either.

South Africa's national development plan (NDP) carries the title *Our future – make it work*. It has a vision (many visions) for 2030. Time is short. Policy makers past and present have done much for socio-economic transformation, but today's leaders carry the responsibility to achieve so much more. One lesson that the demographic dividend literature teaches is that opportunities come and go. Opportunities, or what is left of them, need to be embraced to the full.

South Africa's demographic opportunity is the transition from a working-age ratio of 57% in 1985 to 65% today. It may not go any higher. The demographic transition has not provided a demographic dividend nationally, and if anything can be done to salvage a portion of the country's potential dividend for the future, it must be implemented now and with the utmost urgency. Since 1994, worthy social and economic plans have come and gone, and to the extent that they have successfully driven socio-economic transformation within a responsible fiscal framework, they deserve credit in spades. But they have not been enough, at least not in terms of vigorous implementation, to put South Africa onto the high-growth path it desperately needs and which is a fundamental requirement for the further growth that can emanate from demographics. By 2030, today's primary-school children will be old enough to ask hard questions regarding what more could and should have been done. If we continue to fall short, what will we tell them?

There is abundant policy advice for South Africa from the IMF and OECD and other international organisations regarding the path to sustainable economic growth and development. Neither is there a shortage of advice at home, be it from labour, business, civil society or government itself, the NDP being a prominent case in point. A comprehensive assessment of all the policy options is beyond the scope of this paper, but many South Africans would agree with the following aspirations:

- using technology and all other means available to educate the current and future generations of young people, such that they have the skills to participate fully in the economy of the future (we cannot know precisely what that future will look like and precisely what skills will be needed, but strong foundations can nevertheless be put in place by pushing mathematics and science);
- smoothing the way for small business to flourish (less red tape, more support for entrepreneurs);
- co-operation between the public and private sectors to make broadband services widely available at internationally competitive costs;

- for goods and services built on new and 'disruptive' technology, maintaining law and order and promoting level playing-fields and co-operation between old and new;
- resolving the policy uncertainty and acrimony in the mining industry;
- finding cost-effective solutions to the many disparities in health care;
- managerial excellence at the state-owned enterprises, such that they provide cost-effective services across the spectrum (from low-income households to big business), without consuming endless amounts of taxpayers' resources;
- managerial excellence across government departments and agencies at all levels (national, provincial and municipal);
- clean governance, in particular a thorough crackdown on corruption from top to bottom in both the public and private sectors; and
- effective investigation and prosecution of all forms of crime.

Other countries in Africa are still going through a demographic transition, and their potential dividend lies ahead. Whether or not South Africa's demographic transition can still be translated into a partial dividend, let the African continent learn this from the South African experience: do all that is possible and as soon as possible to put in place supporting socio-economic conditions. Dividends are not free gifts, they must be earned; their availability is not there forever, but subject to a window of opportunity. Let us make sure that one day we do not lament their passing, but rather celebrate their success. The Overton window of political possibilities can be a useful interlocutor for advancing radical as well as nascent and well-founded social concerns such as the question of whether South Africa or indeed Africa is poised for a demographic dividend. Milton Friedman commenting on capitalism is said to have articulated the Overton window of political possibilities with the phrase 'until the politically impossible becomes the politically inevitable'. The demographic dividend question is in this category of the urgent and critical for Africa and South Africa.

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