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Thirty years of democracy: A national accounts perspective

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"Democracy will have little content, and indeed, will be short lived if we cannot address our socioeconomic problems within an expanding and growing economy."
– Nelson Rolihlahla Mandela (1994)

INTRODUCTION

The year 1994 marked the start of a new political dispensation in South Africa. The initial policy framework of the Government of National Unity (GNU), led by the African National Congress (ANC), was set out in a Reconstruction and Development Programme (RDP) White Paper, based on the ANC's electoral manifesto of the same name. Two years later, a macroeconomic strategy titled Growth, Employment and Redistribution (GEAR) was tabled by the minister of finance. The GEAR strategy aimed to achieve an economic growth rate of 6% per year by the year 2000, while substantially raising investment, employment growth and exports (Department of Finance, 1996). In 2006, the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) was adopted, which aimed for 4.5% annual growth until 2010, accelerating to 6% thereafter (The Presidency, 2007). In 2012, the government adopted South Africa's first comprehensive National Development Plan (NDP), which aimed to achieve annual economic growth averaging 5.4% until 2030.

This research note draws on South Africa's national accounts as a record of the trend in economic performance, against the background of these plans. It provides a summary of what the national accounts are and how they evolved. Aggregate economic performance is presented in the three broad categories in which the national accounts are compiled: production, income and expenditure. Where possible, we look back to 1950 to provide a historical perspective on economic transitions. Lastly, a forward-looking analysis estimates how economic outcomes could evolve differently if government return to the initial investment goals in the RDP policy.

SOUTH AFRICA'S SYSTEM OF NATIONAL ACCOUNTS

Growth in gross domestic product (GDP) is perhaps the most widely quoted macroeconomic statistic and describes the pace at which an economy expands. This statistic (and many more) is calculated through a complex system of national accounts (SNA), standardised by the United Nations after the Second World War. We use the national accounts of South Africa to measure the economic performance of South Africa in the three decades of democracy (1994 to 2023).

A country's national accounts are a *"macroeconomic depiction of the national income cycle using the double-entry bookkeeping principle of business accounting and a sequence of accounts to show the relationship between the various economic variables."*[1] (United Nations, 2003).

More to the point, the International Monetary Fund (IMF) describes national accounts as: *"a sequence of accounts* [that] *presents a mass of details about how an economy works and how economic agents interact. Through this system, the SNA enables users to analyse the production and use of goods and services and to measure the gross domestic product (GDP)"* (IMF, 2007).

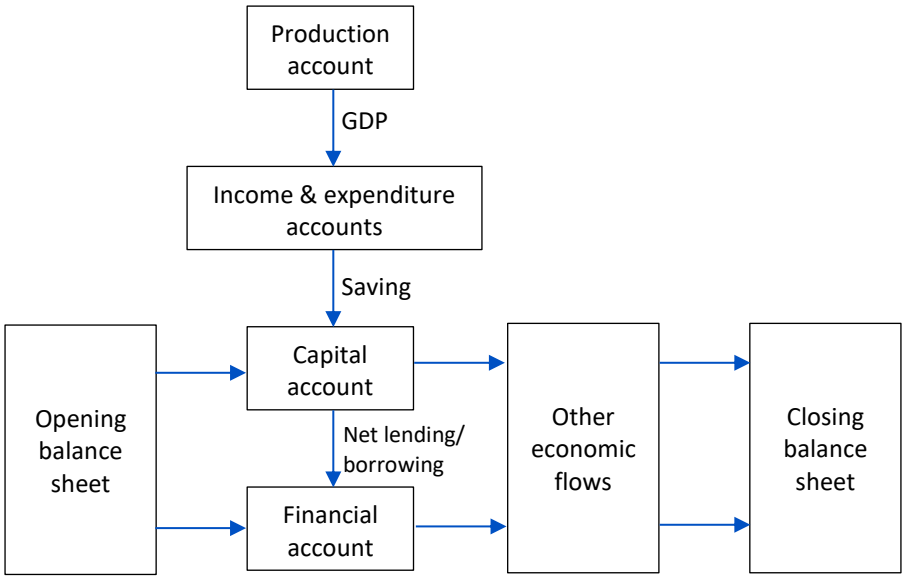
[1] United Nations (2023), National Accounts: Practical Introduction.

As early as 1928, the need was expressed for a statistical measure of national income at the Committee of Statistical Experts of the League of Nations conference. Groundwork on the development of such measures was undertaken in 1937 by the National Bureau of Economic Research (NBER), such as in reports on the national income of the United States (Kuznets, 1937). The Committee's work started in 1939 but was interrupted by the outbreak of the Second World War. It was only in 1947 that the United Nations published the first framework to develop the SNA methodology.

In 1953, the first sets of national accounts were published under the auspices of the United Nations. They consisted of a set of six standard accounts and a set of 12 standard tables presenting details and alternative classifications of the flows in the economy. Most countries, including developing countries, rapidly applied the concepts and definitions of the accounts. Two slightly modified editions of the 1953 SNA were published. In the years thereafter, the SNA was updated and extended to reflect the comments and experiences of countries that implemented it. The SNA was revised in 1960, 1964, 1968, 1993, and 2008 (United Nations Statistics Division, 2024).

At its heart, the SNA is structured around the fundamental economic concepts of demand and supply. Aggregate supply is derived in the production account and aggregate demand in the expenditure account; these two accounts are balanced, by definition, and should always add up to the same GDP value. Figure 1 provides a simplified diagram of the SNA structure:

Figure 1: Flow diagram: the systems of national accounts



Source: IMF

GDP is the total value added in a domestic economy, produced by all resident agents and adjusted for taxes and subsidies. The value added is a net number; it's the combined output value of all goods and services minus the cost of inputs into their production.

GDP can be disaggregated into production, income, and expenditure accounts (IMF, 2007). By long-standing convention, *gross* domestic product is the most widely used measure of economic activity. GDP minus depreciation allowances (or "consumption" of capital) is known as *net* domestic product. Domestically, Statistics South Africa (Stats SA) is primarily responsible for

calculating and maintaining the national accounts. However, the SA Reserve Bank publishes some parts of it, such as the income account and the Balance of Payments. Records for the South African national accounts date back to 1946; it is recorded in quarterly and annual series.

THE IMPACT OF INFLATION

A crucial factor to remember when analysing any economic data over time is the impact of inflation. Most of the growth in the nominal value of GDP is due to inflation, not real economic (or volume) growth. For this reason, one needs to distinguish clearly between these two factors, and therefore, the SNA accounts are expressed in two sets of numbers: real and nominal (i.e. constant and current prices). Nominal GDP is the economy's value at the time of recording. Real GDP is derived by stripping the effect of inflation out, thus leaving a volume proxy for the size of the economy. This volume proxy is usually expressed at the prices that pertained in a selected base year. In its recent national accounts estimates, Stats SA expresses real GDP in 2015[2]-rand values. Thus, for 2015, the GDP would be the same in nominal and real values, but the nominal and real estimates differ for all the other years. Due to inflation, the nominal value is much higher in 2023 than the real value.

In this research note we use 2023 as the base year so that all historical GDP values are expressed in constant 2023-rand values. It aids with interpretation as we have a much better sense of how much R100 can buy today than it could eight years ago. We attain this by adjusting the 2015-series, as published by Stats SA and the SA Reserve Bank, with ratios of the 2023-to-2015 years in each deflator respectively.

Also, the inflation rate varies between different sectors of the economy, and between different categories of goods and services. For example, over the past 30 years, gold prices have increased much more than general inflation (as measured by the GDP deflator). So, whereas the value of output in the mining sector grew substantially, the physical volume produced declined. In order to distinguish between these trends, we compare 1993 with 2023 output levels in both volume and value terms. The value expression[3] reflects each subcomponent in terms of the original price ratios as it was every year. It is derived for analysis purposes and is not an official published statistic. The volume expression[4] is the official statistic in real terms (though adjusted to 2023 prices), from which the official growth rate is derived.

The next sections present the performance of the South African economy during the last three decades as recorded in the national accounts. GDP is discussed in terms of real output growth. The focus then shifts to the production, income and expenditure accounts of the SNA.

GROSS DOMESTIC PRODUCT

Economists use GDP to compare the progress of an economy over time and to compare various economies with each other. As a measure of progress over time, GDP growth can be compared

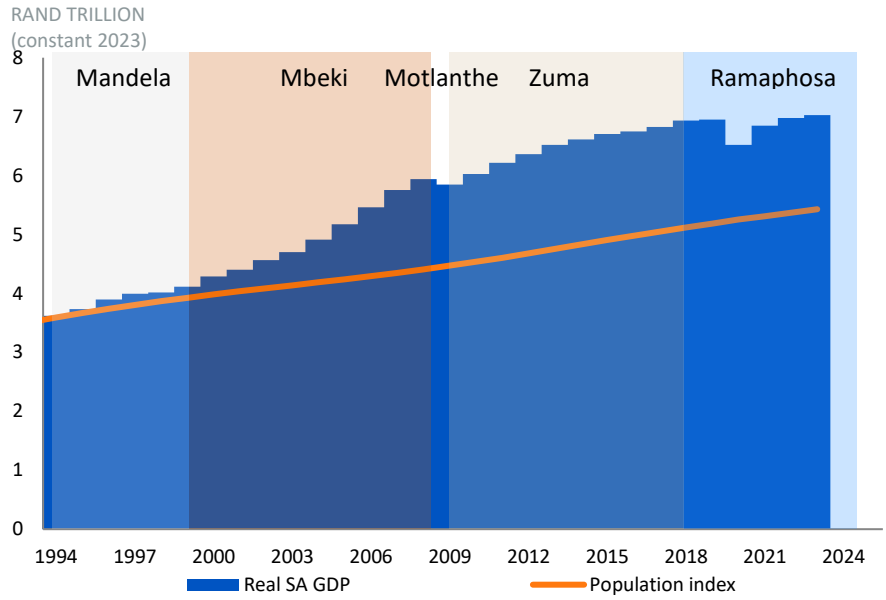
[2] Stats SA tends to shift the base year forward every five years, though, due to the huge impact of the COVID-19 pandemic, a shift to 2020 was skipped as it might skew results.

[3] The value expression is derived by multiplying the percentage contibution of each sub indicator to total GDP, with the value of total GDP in constant prices of that particular year.

[4] The volume expression is derived by taking the orignal nominal value of each past year and adjusting it by its respective unique deflator to constant prices. This is the format in which offical real ouput is expressed.

to population growth to provide a broad indication of the trend in average income or welfare. The graph below depicts the real GDP of South Africa in constant prices from 1994 to 2023, along with the population[5] size set to an index at the same starting value in 1994.

Figure 2: Real GDP compared to the SA population (index)



Source: Stats SA, World Bank & BER

In 1994, South Africa had a GDP of R3.6 trillion (in constant 2023 prices). In the first five years of democracy (1994 to 1999), when Nelson Mandela was president, economic growth did not exhibit strong upward momentum yet, lifting only 17% since 1993 (2.7% annual average), somewhat above population growth of 12% over the same period. In the following period (2000 to 2008), when Thabo Mbeki was president, economic growth accelerated significantly (4.2% annual average), which was substantially higher than population growth. By 2008, domestic output was recorded at R5.9 trillion in 2023 prices, up 44% from 1999, while the population was up by only 12%, implying that GDP per capita increased by about 29% over the same period. This period of strong growth ended abruptly in 2009 as the Global Financial Crisis (GFC) caused GDP to contract by 1.5% that year. It was also the year that Jacob Zuma became president.

Growth resumed in 2010 but gradually lost momentum in the following years, as seen in the graph above by the ever-smaller upward steps in real GDP. By 2018, real output reached R6.9 trillion, 19% higher than in 2009 (1.9% average annual growth). The population was 14% up over the same period, implying that GDP per capita increased by just 4% in nearly a decade. The economy continued to lose momentum after 2018, despite hope for improvement after Cyril Ramaphosa became President. In 2020, the economy contracted by a staggering 6% as the COVID-19 pandemic caused global panic, followed by an artificially induced economic shutdown. It took the economy two years to recover from the malaise. However, growth remained disappointing: GDP in 2023 reached R7 trillion, not much higher (1%) than in 2019. Over the same period, the population expanded by 6% to reach 61.3 million people, implying that GDP per capita fell by 4%.

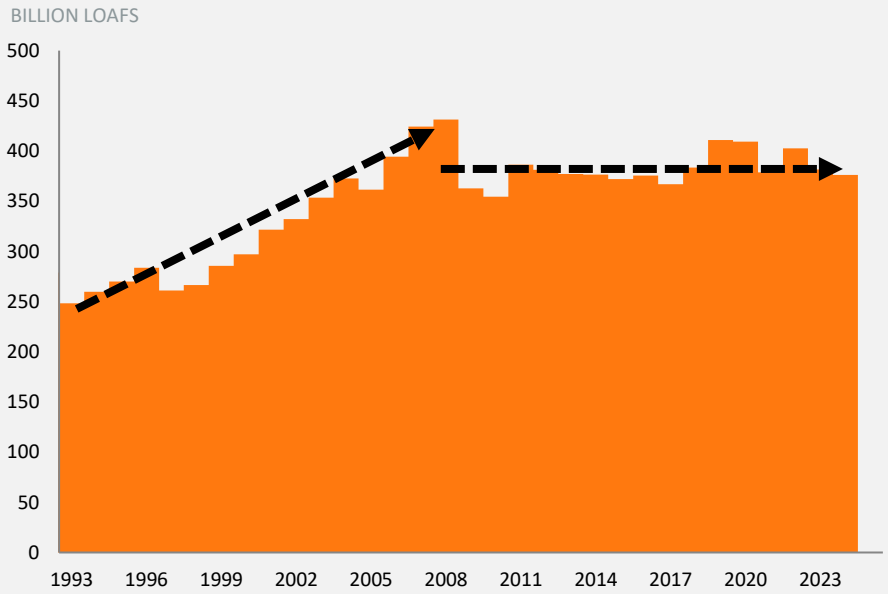
[5] Source: International Financial Statistics by the IMF and Stats SA for the last three years.

Box: Another method of inflation adjustment

Statistical agencies use a wide range of survey data to record nominal output, production and price trends. When volume and overall value data are available, the resulting implicit trend in prices is called a "deflator". The overall deflator is known as the GDP deflator. However, as with the consumer price index, the production and expenditure deflators comprise a basket of goods and services. Sometimes, some of these components exhibit non-typical price trends. For example, the recorded average price deflators of communication services and computers have declined over the last 30 years. Spending on these components of GDP has increased, but the *estimated volume* has increased even faster. The decline in prices of these sub-components partially offsets the increase in prices of other goods and services, perhaps reducing measured inflation by comparison with the price trends households or businesses experience.

Another way to adjust for inflation is to use the price of a single standardised and time-consistent item, such as a loaf of bread, as a deflator. Using a loaf of bread is a suitable choice since the cost of bread is a function of a broadly representative set of inputs in the national economy (National Agricultural Marketing Council, 2004). It includes the agricultural sector producing wheat, the industry that mills, processes and bakes bread, and logistics that transport wheat, bread and other inputs from farms to bakeries to retail outlets. Bakeries and retail outlets capture the cost of rent, utilities, labour and much more. Thus, the cost of a loaf of bread represents a whole value chain of economic activity and may, to some extent, represent overall price trends over time. This is similar to the way in which the Big Mac index (The Economist, 2024) is sometimes used to compare the real value of international exchange rates. The nominal price of a loaf of white bread was, on average, R18.68 in 2023 and R1.85[6] in 1993. Using this price series as a deflator for GDP, the following alternative real GDP series can be derived:

Figure 3: Real GDP expressed as the number of loaves of bread



[6] This is a 10-fold increase, 11% above the 9-fold increase in the deflator for food, beverages and tobacco in Table 4. Other domesitically produced goods, such as residential building costs, increased 11-fold over the same period. In contrast, general inflation (GDP deflator) were softened by the significant drop in the cost of information technology and imported goods from China.

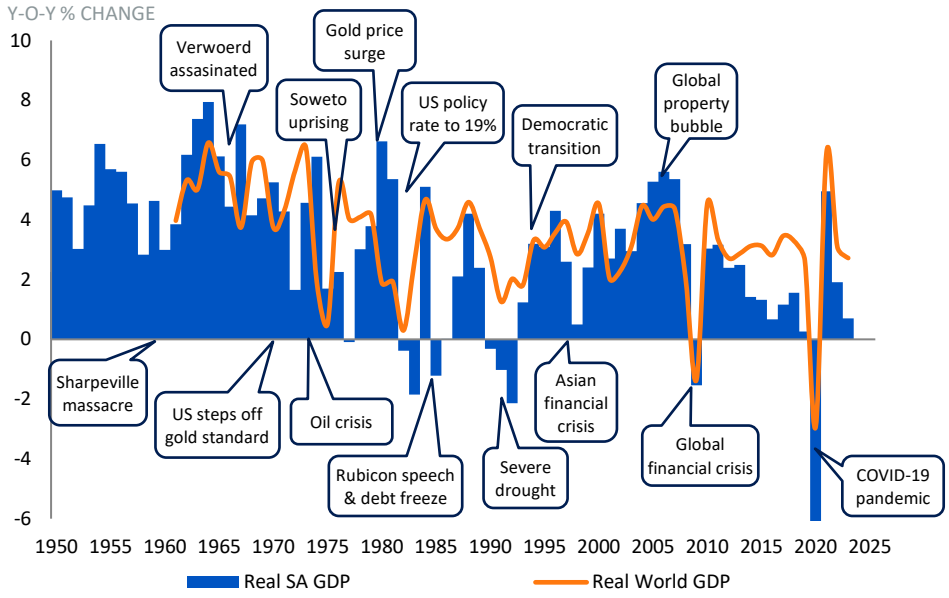
From this point of view, the South African economy exhibits two distinct periods: rapid growth from 1997 to 2007 and a second period of total stagnation from 2008 to 2023. In 1994, the GDP was the equivalent of 270 billion loaves of bread. By 2007, it peaked at 431 billion loaves, then fell to 363 billion in 2008. The economy did not regain upward momentum until 2018 and 2019, only to be cut short by the COVID-19 pandemic. By 2023, domestic output was valued at 376 billion loaves, very similar to the value it attained in 2010.

Over the three decades, GDP was up by 45% as measured by loaves of bread, below the population increase of 55% over the same time. This implies that, measured in terms of the number of loaves of bread, output per capita has declined by 6%.

A long-run history of GDP growth

Annual economic growth reflects the markings and scars of impactful domestic and international events, like the gold price surge in 1980, the global financial crisis in 2009 and the COVID-19 pandemic in 2020. In the long run, economic policies shape the economic course, but impactful events cannot be ignored.

Figure 4: Real GDP growth since 1950, with specific events



Source: World Bank, Stats SA & SARB

In the 1950s, domestic economic growth averaged 4.7% per year, accelerating to an average of 5.5% in the 1960s. These decades were marked by strong US and Western European growth after the Second World War; South Africa was no exception. International economic sanctions against South Africa had not yet been imposed.

The 1970s marked a significant slowdown in global economic growth. As the US stepped off the gold standard in 1971 and Arab nations imposed an oil embargo on the West in 1973, inflation surged to unprecedented levels, dragging economic growth down. The phenomenon was known as stagflation. South Africa did not escape; average growth fell to 3.3% in the 1970s.

To address the elevated inflation problem, the Federal Reserve (Fed) in the US, under the leadership of Paul Volcker, aggressively hiked its policy interest rate from 10% in 1979 to 19% in 1981. The US economy entered a severe recession, which spilled over to South Africa. Besides

this, international financial sanctions were imposed in the mid-1980s, lowering GDP growth. On average, the South African economy expanded by only 2.2% per year in the 1980s.

During the first half of the 1990s, growth slowed even further to a meagre 0.2% per year as political tension, violence, and uncertainty marked the final years of National Party rule. During the second half of the decade, growth recovered to an average of 2.6%, following the historic democratic transition, marked by an end to international sanctions and a return of business and investor confidence. Sound macroeconomic policies (RDP and GEAR) contributed, focusing on raising fixed investment, keeping consumption at bay and lowering government debt. Internationally, the 1990s were marked by better prospects; inflation was under control, and the Cold War was over following the collapse of the Soviet Union in 1991. This opened a new era of international trade and cooperation.

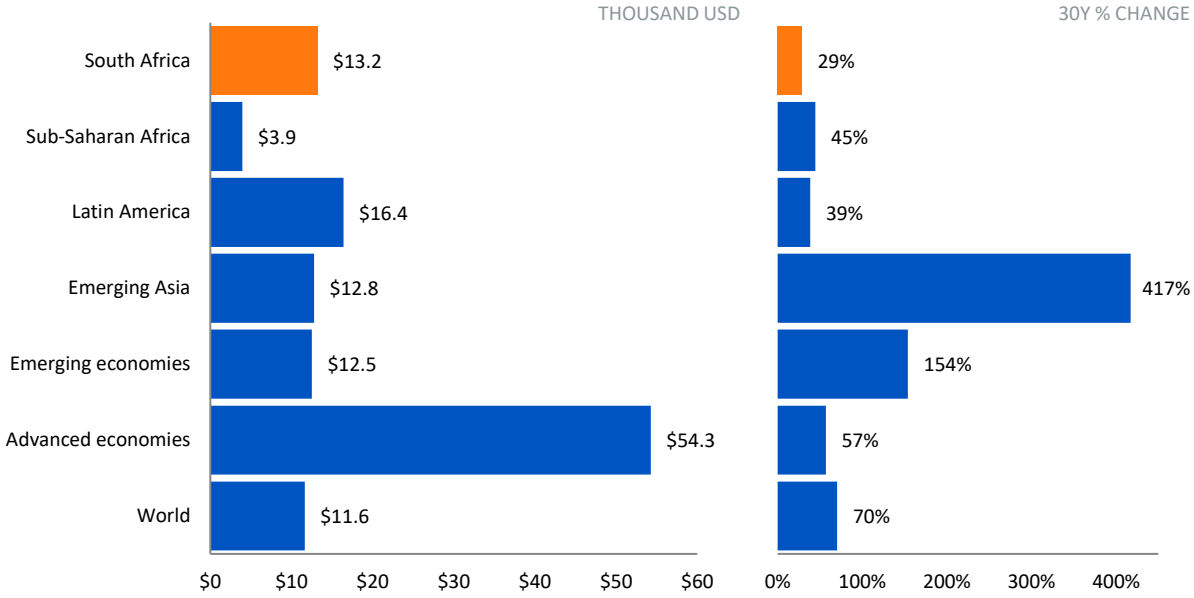
During the first decade of the new millennium, South Africa’s GDP growth accelerated to an average of 3.6%. By the middle of the decade, growth reached a high of 5.6% (in 2006). However, part of this surge was fuelled by extremely low interest rates in the US, which resulted in a massive property bubble, followed by the Global Financial Crisis (GFC). Consequently, the decade ended with an economic contraction of 1.5% in 2009. Though the economy initially recovered from the GFC, growth gradually slowed during the 2010s. The loss of political cohesion, management challenges at state-owned entities, an erosion of electricity supply capacity and the state capture saga all contributed to the deterioration in economic performance. The government's macroeconomic policies changed course towards more consumption and less fixed investment; average GDP growth in this decade fell to only 1.7% per year.

The 2020s started on a difficult footing. The COVID-19 pandemic rapidly spread around the world, and governments all over closed borders and demanded that their citizens stay at home. As a result, South Africa's GDP contracted by 6.2% in 2020. Though the economy partially recovered the following year, an acute shortage in electricity due to a faltering Eskom kept a lid on growth.

International comparison

The worldwide standardisation of national accounts allows output to be compared between countries. GDP per capita is used to compare the average income level of individuals. However, due to exchange rates that trade at under- or overvalued positions, international comparisons of GDP per capita are generally expressed in terms of purchasing power parity (PPP). In 2023, the GDP per capita in South Africa was R75 200, or US$13 200 (PPP, constant 2011 prices). This level is close to the world average ($11 600) and that of other emerging markets ($12 500), and is significantly higher than Sub-Saharan Africa at $4000. However, South Africa’s growth performance over the past 30 years has lagged behind other regions and the global economy.

Figure 5: GDP per capita in 2023 (PPP, 2011 US$, left) & change therein from 1993-2023 (right)



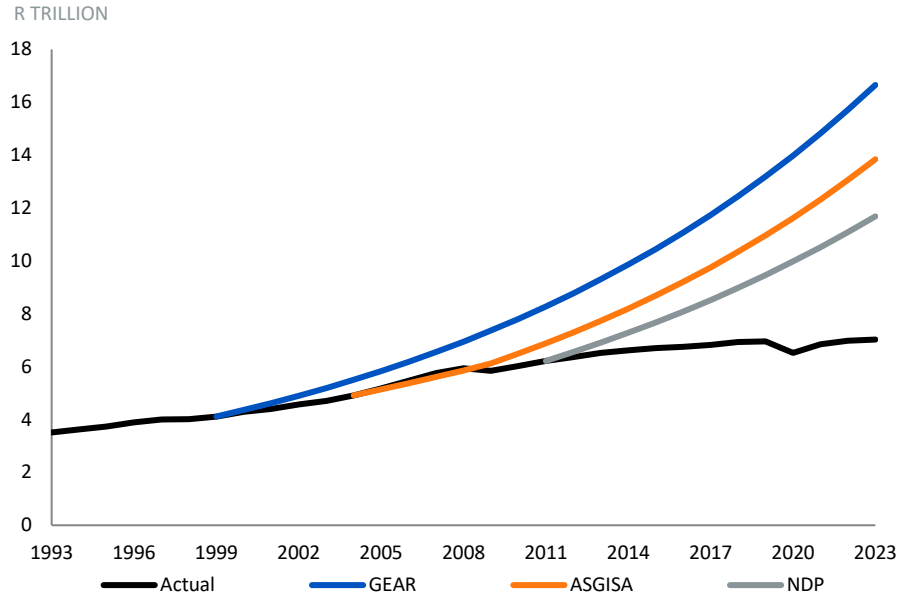
Source: World Bank

In 1993, South Africa's GDP per capita was $10 300, increasing by 29% over the following three decades. Globally, GDP per capita increased by 70% over the same period, while in Sub-Saharan Africa, it rose by 45%. Even in advanced economies (which have no catch-up potential), individual income levels improved by more, at 57%.

South Africa's initial growth targets

The RDP policy (1994) did not stipulate a specific economic growth target, but in 1996, the Department of Finance's GEAR policy quantified targets for some key macroeconomic indicators. A growth rate of 6% from 2000 onwards was indicated as the ideal to reach the social goals envisioned by the RDP (Department of Finance, 1996). Later, in 2005, the Presidency published a new macro-economic policy, the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). This policy framework aimed for growth of 4.5% from 2006 to 2010, accelerating to 6% thereafter (The Presidency, 2007). By 2012, following the global recession, this was clearly no longer realistic. But under the auspices of the newly established National Planning Commission, a wide-ranging National Development Plan 2030 (NDP) was adopted, which proposed a growth target of 5.4% a year from 2012 onwards (National Planning Comission, 2012). Of these three official projections, only AsgiSA managed to get close to its growth target, until the Global Financial Crisis hit in 2009. The graph below illustrates the rising gap between South Africa's growth aspirations and the reality of economic performance over the past 30 years. Naturally, these trajectories exclude any economic shocks such as the global financial crisis, the commodity boom or the COVID-19 pandemic.

Figure 6: Real GDP trajectories under the three growth plans (constant 2023 prices)



Source: Stats SA, BER

If the GEAR growth aspiration of 6% by 2000 had been achieved and maintained until 2023, GDP would have been R16.6 trillion, 2.4 times as large as it was in 2023. Under the more moderate AsgiSA goal, it would have been R13.8 trillion, twice as big, and under the NDP indicative target, it would have achieved R11.7 trillion, 1.7 times as big. From a socioeconomic point of view, if the GEAR target was realised, South Africa would have had a GDP per capita of $31 000 (purchasing power parity, constant 2011 prices), which is in the class of a developed nation.

In the elaboration of South Africa's actual growth performance between 1993 and 2023 below, we explore first the changing structure of production, then of the distribution of income and then of the main expenditure aggregates.

METHOD 1: THE PRODUCTION ACCOUNT

The production account of the SNA represents the supply side of an economy. At its aggregated level, the production account depicts gross value added[7] in production by the primary, secondary, and tertiary sectors. These three broad sectors are subdivided into the ten main industries of the economy, such as agriculture, construction, government, etc. By adjusting each sector's nominal output in 1993 by the 1993-2023 main GDP deflator, we obtain estimates of each sector's *value* of 1993 output in 2023 prices. The table below depicts the output of these sectors as it was in 1993 and 2023, in billions of rand at constant 2023 prices. For 1993, two sets of numbers are provided: the volume (vol) and the value (val).

[7] Gross value added still includes the consumption of capital, no provision is made for depreciation.

Table 1: GDP by production approach

	Deflator	R billion (2023 prices)			% of total		30y % increase	
		1993vol	*1993val*	2023	1993	2023	Volume	*Value*
Primary industries	**13.5**	**557**	***300***	**628**	**9%**	**9%**	**13%**	***109%***
Agriculture, forestry and fishing	5.4	89	*120*	184	3%	3%	106%	*53%*
Mining and quarrying	20.4	504	*180*	444	5%	6%	-12%	*146%*
Secondary industries	**6.5**	**839**	***941***	**1 285**	**27%**	**18%**	**53%**	***37%***
Manufacturing	5.7	583	*751*	910	21%	13%	56%	*21%*
Electricity, gas and water	17.1	191	*81*	219	2%	3%	15%	*170%*
Construction	5.4	81	*109*	155	3%	2%	93%	*43%*
Tertiary industries	**6.6**	**1 824**	***2 012***	**4 398**	**57%**	**63%**	**141%**	***119%***
Wholesale, retail, hotels & restaurants	7.1	430	*441*	878	13%	12%	104%	*99%*
Logistics & communication	4.2	159	*274*	495	8%	7%	211%	*81%*
Business & financial services	5.7	466	*593*	1 472	17%	21%	216%	*148%*
General government services	9.4	334	*259*	546	7%	8%	64%	*110%*
Personal services	7.6	460	*445*	1 007	13%	14%	119%	*127%*
Total value added at basic prices	**7.0**	**3 131**	***3 253***	**6 311**	**93%**	**90%**	**102%**	***94%***
Taxes less subsidies on products	10.7	378	*258*	713	7%	10%	89%	*177%*
GDP at market prices	**7.3**	**3 510**	***3 510***	**7 024**	**100%**	**100%**	**100%**	***100%***

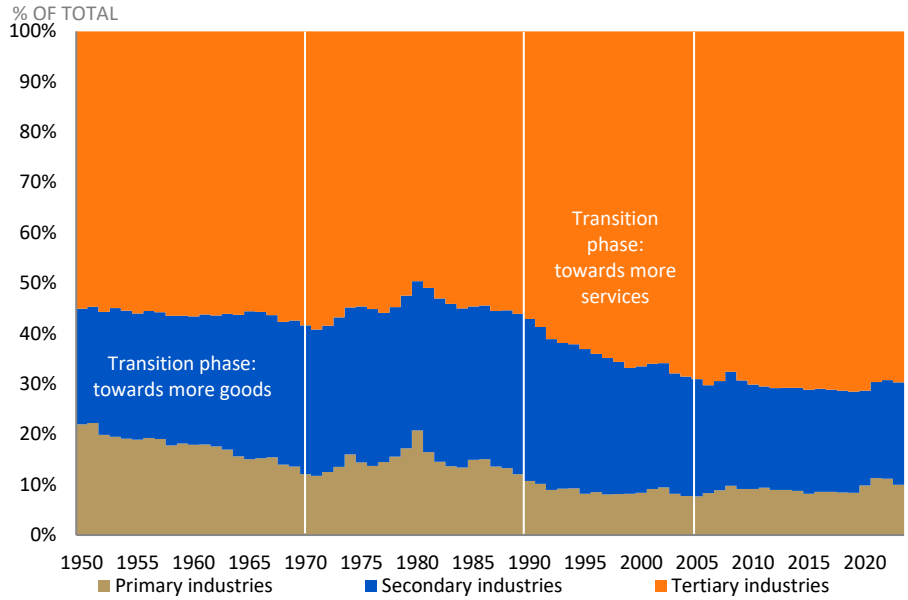
Source: StasSA, SARB & BER

How to interpret the table - Mining and quarrying as an example:
The output of the mining sector was R444 billion in 2023, which is 6% of total GDP. Back in 1993, mining contributed 5% to total GDP, which is worth R180 billion of the total R3.5 trillion. However, relative to everything else, commodities were much cheaper back then. (Looking at the deflators, mining output prices increased 20.4-fold, while general prices only by 7.3-fold, so mining output became 2.8 times more expensive relative to everything else). In fact, if that volume of output was sold at the relative prices of today, it would be worth R504 billion. For this reason, we use the latter as a volume proxy for the real mining output in 1993. By comparing this with the output in 2023, it can be deducted that the volume of mining contracted by 12% over three decades, even though the value of that output increased by 146%. The decline in mining output was in part because of natural resource constraints (declining gold ore stocks and lower grades of available ore, for example).

South Africa's real GDP doubled (100% increase) during the last three decades. Most of this volume growth occurred in the tertiary sector, which expanded by 141%, while the primary sector lagged, expanding by only 13% over the same period. In contrast to mining, the volume output of logistics and communication was up by 211%, though the value thereof only increased by 81%, as the cost of computers and telecoms decreased dramatically.

In terms of industry composition, the role of the secondary sector diminished over the last three decades while that of the tertiary sector increased. More specifically, the share of manufacturing fell from 21% in 1993 to 13% in 2023, while the share of business and financial services rose from 17% to 21% over the same period. This transition started around 1990 and petered out by 2010 (see the graph below).

Figure 7: Main sector composition of the SA economy since 1950



Source: SARB & Stats SA

Taking a longer-run view (since 1950), the first significant change in sector composition occurred from 1950 to 1970. The share of the primary sector declined from 22% to 11%, while that of the secondary sector increased from 20% to 28%. During the 1970-1980 period there was a recovery in the share of the primary sector, mainly because of the steep rise in the price of gold, which then fell over much of the following decade. The second transition phase lasted about 14 years, from 1991 to 2003, as the tertiary sector grew in importance. These transitions are typical of maturing economies as they develop from a rural agrarian base to a more urban industrial and services base.

METHOD 2: THE INCOME ACCOUNT

Another way to calculate GDP is to sum the incomes generated by the main factors of production, namely labour and capital. The income account is useful because it says something about income distribution, mainly what proportion flows to labour compared to capital owners. Official statistics for this account are only published in current prices. By applying the main GDP deflator to all the sub-components, their 1993-nominal values can be expressed in 2023 constant prices.

The income of labour is called the compensation of employees (which includes social and pension fund contributions). The income of capital is referred to as the “net operating surplus,” which consists mainly of interest, profits, and dividends. These accrue mainly to companies but eventually flow to their owners. Besides the income received, both agents consume capital (depreciation) and pay taxes on production and products.

Table 2: GDP by income approach

	R billion (2023 prices)		% of total		% increase
	1993	2023	1993	2023	30 years
Compensation of employees	1 784	3 179	51%	45%	78%
Net operating surplus	888	2 044	25%	29%	130%
Consumption of fixed capital	541	952	15%	14%	76%
Gross value added at factor cost	**3 213**	**6 176**	**92%**	**88%**	**92%**
Other taxes on production	63	148	2%	2%	135%
Less: Other subsidies on production	23	13	1%	0%	-43%
Gross value added at basic prices	**3 253**	**6 311**	**93%**	**90%**	**94%**
Taxes on products	304	731	9%	10%	141%
Less: Subsidies on products	46	17	1%	0%	-62%
Gross domestic product at market prices	**3 510**	**7 024**	**100%**	**100%**	**100%**
Employment (million)	*11.6*	*16.5*			*42%*
Compensation per employee (R'000)	*153.4*	*192.7*			*26%*
Labour productivity (R'000)	*301.8*	*425.7*			*41%*
Population (million)	*39.6*	*61.3*			*55%*
GDP per capita (R'000)	*88.6*	*114.6*			*29%*

Source: StasSA, SARB, Quantec & BER

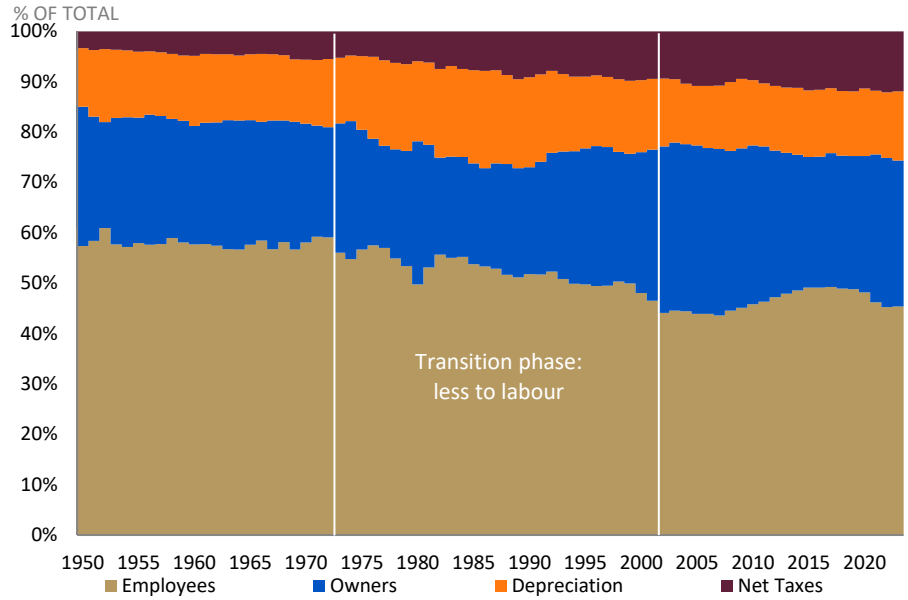
In 1993, 11.6 million employees[8] received a combined compensation of R1.78 trillion (constant 2023 prices), which amounted to R153 400 per employee. The output per employee (labour productivity) at the time was R301 800. Thus, employees received about 51% of the value they added. By 2023, 16.5 million employees were compensated a total of R3.18 trillion, which amounts to R192 700 per employee, an increase of 26% in the average wage over three decades. However, the share going to employees declined from 51% to 45%, while the share going to capital increased from 25% to 29%. From this perspective, it can be concluded that the income distribution in South Africa has become more unequal in the last 30 years.

Also of concern in relation to income distribution, is that the number of employees increased by only 42% over the last 30 years, while the population grew by 55%. This implies that a larger proportion of people are now without a job and have no income (or rely on social grants), which is the most extreme form of income inequality.

Another insight provided by Table 2 is that the share of taxes on production and products (net of subsidies) increased substantially, from 8% of GDP in 1993 to 12% three decades later. This mainly reflects the rise in VAT and constitutes a 50% increase in the effective tax burden. However, when the long run is considered in the figure below, the share of income accounted for by taxes (net of subsidies) has been rising gradually since 1950, when it was around 5%.

[8] Source: Quantec, comparitive to the Quarterly Labour Force Survey of Statistics South Africa.

Figure 8: GDP by income source since 1950



Source: SARB & Stats SA

Between 1950 and 1972, labour's share of national income was around 60% of GDP. Since 1973 (the time of the oil crisis), this share has gradually declined to a low of 44% in 2002. There was a brief period when it increased again from 2010 to 2014 to reach 49%, though this was probably due to a surge in government employment that was not sustainable in the longer run.

Capital's share of income drifted around 25% in the two decades from 1950 to 1971, whereafter it fell to around 22% and became more erratic until 1991. First, the oil crisis, followed by ever-increasing international sanctions and domestic political tension during this period, most likely hampered companies' profitability. In 1992, the share of capital started to rise significantly, reaching a high of 33% from 2002 until 2007.

Of note was the sudden rise in the consumption of fixed capital (depreciation) between 1975 to 1991. It jumped from 13% in 1974 to 17% in three years and fell from 18% in 1990 to 15%, also in three years. Political violence and the border war in Namibia and Angola during this time are both factors that most likely contributed to a higher rate of capital destruction.

METHOD 3: THE EXPENDITURE ACCOUNT

The national accounts are constructed in such a way that the aggregate value of output or income can also be decomposed into its *uses* or expenditure categories. The uses include consumption by households and government, gross capital formation (which includes new investment, but is mostly depreciation of existing capital stock), and net trade (exports minus imports). Together, these components form the expenditure account of the SNA, representing the demand side of an economy. The table below shows the GDP expenditure account of South Africa in 1993 and 2023 (calculated similarly to the production table above).

Table 3: GDP by expenditure approach

	Deflator	R billion (2023 prices)			% of total		30y % increase	
		1993vol	*1993val*	2023	1993	2023	Volume	*Value*
Final consumption expenditure	**6.7**	**2 651**	***2 876***	**5 882**	**82%**	**84%**	**122%**	***105%***
by households	6.2	1 913	*2 240*	4 523	64%	64%	136%	*102%*
by general government	8.5	741	*636*	1 359	18%	19%	83%	*114%*
Individual consumption expenditure	*9.2*	*361*	*287*	*608*	*8%*	*9%*	*68%*	*112%*
Collective consumption expenditure	*7.4*	*354*	*349*	*751*	*10%*	*11%*	*112%*	*115%*
Gross capital formation	**5.7**	**391**	***497***	**1 091**	**14%**	**16%**	**179%**	***120%***
Gross fixed capital formation	5.7	404	*518*	1 049	15%	15%	160%	*103%*
Change in inventories	5.2	-15	*-21*	42	-1%	1%		
Gross domestic expenditure excluding residual	6.5	3 017	*3 373*	6 974	96%	99%	131%	*107%*
Residual item		-37	*-8*	27	0%	0%		
Gross domestic expenditure	**6.6**	**3 042**	***3 365***	**7 001**	**96%**	**100%**	**130%**	***108%***
Exports of goods and services	11.1	1 061	*699*	2 301	20%	33%	117%	*229%*
Exports of goods (f.o.b.)	*11.8*	*1 002*	*621*	*2 038*	*18%*	*29%*	*103%*	*228%*
Exports of services	*6.1*	*66*	*78*	*263*	*2%*	*4%*	*301%*	*237%*
Less: Imports of goods and services	8.0	609	*554*	2 278	16%	32%	274%	*311%*
Imports of goods (f.o.b.)	*7.2*	*438*	*442*	*1 934*	*13%*	*28%*	*341%*	*338%*
Imports of services	*12.4*	*190*	*112*	*343*	*3%*	*5%*	*80%*	*205%*
Expenditure on GDP (at market prices)	**7.3**	**3 510**	***3 510***	**7 024**	**100%**	**100%**	**100%**	***100%***

Source: StasSA, SARB & BER

As shown in the production and income accounts above, GDP amounted to R3.51 trillion in 1993 (in constant 2023 prices) and doubled in size (100% increase) in the following three decades to R7.02 trillion in 2023. In terms of its expenditure composition, there were no dramatic changes. Household consumption constituted 64% of the total in both 1993 and 2023, while government consumption increased from 18% to 19%.

The term *gross fixed capital formation* can be somewhat misleading. Though it includes new investments in fixed assets, it largely comprises the replacement and rehabilitation of existing fixed assets. The share of this component in GDP is unchanged at 15%, which is far below the 21% average from 1950 to 1993, a target to which the RDP wanted to return.

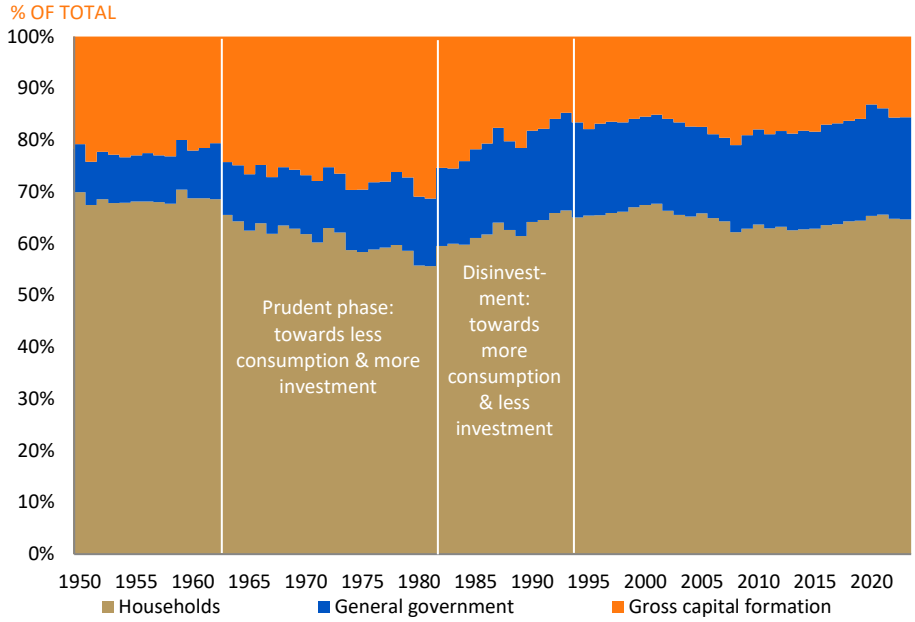
These minor increases in the consumption and investment components add up to about 4% of GDP, balanced by a similar decline in net trade. There was a significant increase in the share of imports, from 16% of GDP in 1993 to 32% currently. The share of exports also increased substantially, from 20% to 33%. As such, the South African economy has become much more open in the last thirty years than before 1994. These numbers also reveal something about South Africa's trade balance. Exports exceeded imports by 4% of GDP in 1993, translating into a trade balance surplus. Currently, both items are of similar value, which indicates a more neutral trade balance.

Regarding price deflators for the respective components, inflation was higher for government consumption, where the unit cost escalated 8.5-fold in the last three decades, which is more than the general price increase of 7.3-fold. The unit price of fixed capital formation went up only 5.7-fold, while household prices, at 6.2-fold[9], were also below the rise in general prices. Of note is the significant rise in the unit price of exports, which surged 11.1-fold over the same period, while import prices went up only 8-fold. This reflects South Africa's gains from its terms of

[9] In comparison, the consumer price index (CPI) indicates that consumer prices increased 5.6-fold from 1993 to 2023.

trade[10] improvement over the past 30 years. The high export deflator follows the surge in commodity prices in the last 30 years, driven by China's extraordinary economic growth, boosting the demand for raw materials.

Figure 9: Gross domestic expenditure by main category since 1950



Source: SARB & Stats SA

Though there were no significant changes in the ratio of the main three consumption components in the last three decades, there were some in the decades before. As seen in the graph above, from 1963 to 1981, the share of household consumption to gross domestic expenditure (GDE, which excludes net trade from GDP) fell from 69% to 56%. Meanwhile, gross fixed investment rose from 22% to 31%. In the 19 years after, fixed investment reversed the trend and fell to only 15% of GDE by 2000, while household consumption increased to 68%.

The share of government consumption has gradually crept higher since the 1960s. In 1960, it was only 8% of GDE, rising to 10% in 1970, 14% in 1980 and 19% in 1993. The new government of 1994 managed to reverse this rising trend by reducing the share to 16% by 2005. This was in line with the goals of government policy as reflected in the Reconstruction and Development Programme (RDP) policy framework of 1994, which stated, "*In the long run, the RDP will redirect government spending, rather than increasing it as a proportion of GDP"* (ANC, 1994). However, since 2008, the share of government consumption increased to 20% of GDE by 2019, at the expense of fixed investment.

The remainder of this section focuses on the components of the expenditure account.

Final consumption expenditure by households

Private households consume[11] nearly two-thirds of domestic output, of which roughly half is spent on services (in 2023). Less than 10% of household spending is on durable and semi-durable

[10] The ratio between a country's export and import prices. The terms of trade of a country improves when export prices increase at a faster pace than import prices.

[11] This consumption is paid for by households themselves or by government, in terms of subsides to health and education, for example.

goods, respectively. About one-third is spent on non-durable goods, such as food and energy. In 1993, the proportion spent on durables and semi-durables was slightly higher than 10%, mostly because they were relatively more expensive. With China emerging as the new manufacturing hub of the world, significantly cheaper manufactured goods flooded markets everywhere. This is evident in the price deflators of durables and semi-durables; at 3.8-fold and 2.2-fold, respectively, prices for these products did not rise nearly as much as the 9.5-fold increase in non-durable goods prices. The nominal prices of computers, for example, are now lower than in 1993, despite the overall consumer basket costing 6.2 times more.

Table 4: Account for household consumption expenditure

	Deflator	R billion (2023 prices)			% of total		30y % increase	
		1993vol	1993val	2023	1993	2023	Volume	Value
Durable goods	**3.8**	**130**	***251***	**402**	**11.2%**	**8.9%**	**209%**	***60%***
Furniture, household appliances, etc.	2.7	33	*89*	76	4.0%	1.7%	132%	*-14%*
Personal transport equipment	9.5	98	*76*	216	3.4%	4.8%	119%	*185%*
Computers and related equipment	0.9	2	*17*	13	0.7%	0.3%	537%	*-19%*
Recreational and entertainment goods	0.9	6	*46*	69	2.1%	1.5%	1159%	*51%*
Other durable goods	3.0	10	*24*	27	1.1%	0.6%	177%	*13%*
Semi-durable goods	**2.2**	**84**	***280***	**370**	**12.5%**	**8.2%**	**342%**	***32%***
Clothing and footwear	1.7	33	*142*	210	6.3%	4.6%	532%	*48%*
Household textiles, furnishings, etc.	2.0	12	*46*	50	2.1%	1.1%	304%	*8%*
Motor car tyres, parts and accessories	6.4	53	*60*	73	2.7%	1.6%	38%	*21%*
Recreational and entertainment goods	1.8	7	*29*	21	1.3%	0.5%	199%	*-27%*
Miscellaneous goods	3.4	2	*4*	16	0.2%	0.4%	858%	*342%*
Non-durable goods	**9.5**	**936**	***719***	**1 502**	**32.1%**	**33.2%**	**60%**	***109%***
Food, beverages and tobacco	9.1	608	*487*	922	21.7%	20.4%	52%	*89%*
Household fuel, power and water	15.7	131	*61*	232	2.7%	5.1%	76%	*279%*
Household consumer goods	5.2	32	*45*	98	2.0%	2.2%	206%	*117%*
Medical and pharmaceutical products	7.4	35	*34*	91	1.5%	2.0%	160%	*165%*
Petroleum products	12.8	106	*60*	132	2.7%	2.9%	24%	*118%*
Recreational and entertainment goods	5.9	25	*31*	29	1.4%	0.6%	14%	*-8%*
Services	**6.3**	**850**	***989***	**2 248**	**44.2%**	**49.7%**	**164%**	***127%***
Rent	7.8	259	*241*	444	10.8%	9.8%	71%	*84%*
Household services	5.9	47	*58*	102	2.6%	2.2%	117%	*76%*
Medical services	8.5	89	*77*	241	3.4%	5.3%	170%	*214%*
Transport & communication	3.9	121	*229*	491	10.2%	10.8%	304%	*114%*
Education & recreation	8.5	103	*88*	328	3.9%	7.3%	219%	*271%*
Miscellaneous services	5.2	211	*296*	644	13.2%	14.2%	205%	*117%*
Total	**6.2**	**1 913**	***2 240***	**4 523**	**100%**	**100%**	**136%**	***102%***

Source: StasSA, SARB & BER

With relative prices of durables and semi-durables declining, households now consume these items in larger quantities. The volume consumed of durables is up by 209%, twice the rate of GDP and nearly 4 times the population increase of 55% over the same period. The volume of semi-durables is up 342%, more than 6.2 times the population increase. The implication is that, on average, individuals now use nearly double as many semi-durable goods as thirty years ago. This improvement in living standards is largely due to the international economy, and in particular to the role of China in lowering the cost of manufactured goods extraordinarily.

In contrast, South Africa's prices of more essential non-durable goods, such as food, energy and medicine, increased more than overall consumer prices, and the volumes consumed thereof increased only moderately. Regarding food, beverages, and tobacco, consumption has increased by 52% in the last three decades, slightly below the population increase of 55%. This implies that the amount of food available per person remained virtually the same from 1993 to 2023.

However, the price of this category increased 9.1-fold, which is 46% higher than the 6.2-fold increase in the overall household consumption basket.

Of note is the significant increase in the price of utilities (electricity and water), up by 15.7 times, which implies a real increase of 152% since 1993. This sharp rise correlates with the increase in international energy prices (Brent crude oil was up 22-fold in rand terms) and commodities in general, over this period (also due to China's emergence). However, there was a 76%[12] volume increase in utility consumption, more than the 55% population increase, translating into a 14% increase in power and water available to each resident. This reflects more widespread delivery and distribution of utilities to households, in addition to increased use of household appliances. Similarly, spending on health and education increased by much more than the population and GDP (170% and 219% respectively). These, to some extent, fulfil some of the initial goals of the RDP programme in 1994:

> *The key to this link is an infrastructural programme that will provide access to modern and effective services like electricity, water, telecommunications, transport, health, education and training for all our people (ANC, 1994)*.

A striking feature of the household expenditure trend is that rent[13] was only about 11% of spending in 1993 and 10% in 2023. This is low by international comparison; housing cost is typically one of the largest expenses of middle-class households, up to a third of net income. This may reflect underlying assumptions about the value of owner-occupied and state-provided housing. The low share spent on rent arguably indicates a small middle class in South Africa, and the impact of rising unemployment and the growth of informal housing. For context, the volume of rent/housing consumed increased by 71% in the last three decades, an increase of 11% per resident. This increase is likely also due to the government's low-cost housing programmes, which provide subsided dwellings to many people.

Gross fixed investment (capital formation)

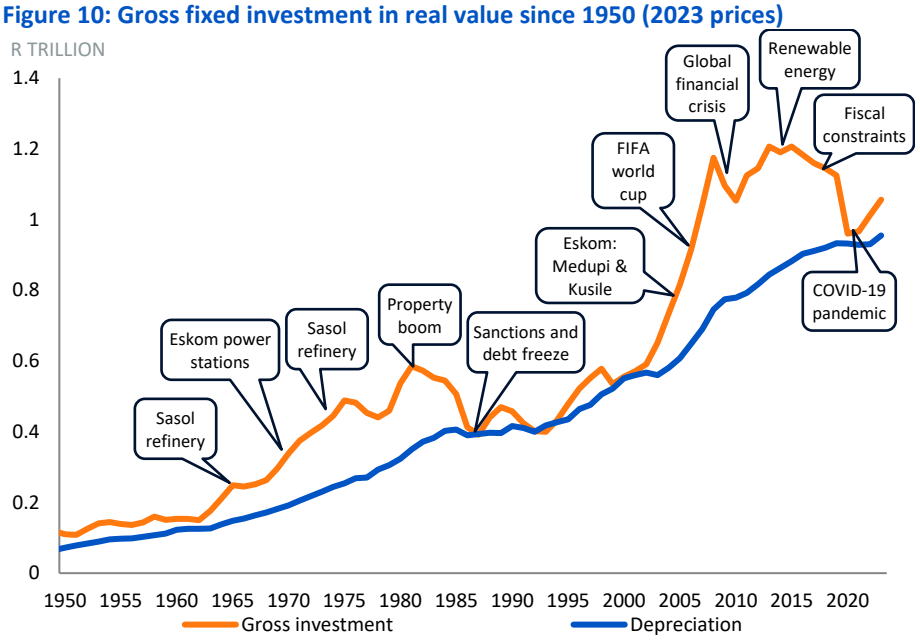
An important aspect to remember when considering gross fixed investment (capital formation) is that it includes the replacement or rehabilitation of buildings and equipment consumed in production. New additions to the capital stock are typically a smaller portion of the gross value. The graph below displays fixed investment and depreciation since 1950. The impact of big projects tends to be a key driver of net fixed investment. Examples of these projects are Sasol's refineries, Eskom power stations, sports stadiums and the Gautrain and renewable energy projects. Economic sanctions and the debt freeze in 1985 had a profound impact, causing a slump in net investment that only started to recover by 2002.

The subcomponents of fixed investment can be categorised according to three methods: (1) by kind of economic activity, (2) by type of organisation (investor), and (3) by type of asset. Table 5 shows the respective deflators, relative proportions to the total, and percentage increases over three decades.

[12] Since total electricity production is up only 28% over the same period, it must be that more of it goes to households and less to industry than in 1993.

[13] Rent includes the imputed rental of owner-occupied dwellings.

Figure 10: Gross fixed investment in real value since 1950 (2023 prices)



Source: SARB & Stats SA

Table 5: Account for gross fixed capital formation

	Deflator	R billion (2023 prices)			% of total		30y % increase	
		1993vol	*1993val*	2023	1993	2023	Volume	*Value*
By kind of economic activity								
Agriculture, forestry and fishing	7.6	25	*24*	61	5%	6%	145%	*154%*
Mining and quarrying	7.1	44	*45*	146	9%	14%	235%	*226%*
Manufacturing	5.8	62	*78*	139	15%	13%	125%	*78%*
Electricity, gas and water	5.6	27	*35*	80	7%	8%	197%	*127%*
Construction (contractors)	5.2	4	*6*	20	1%	2%	340%	*211%*
Wholesale, retail, catering & accomm.	5.2	19	*27*	65	5%	6%	242%	*144%*
Logistics and communication	4.3	34	*57*	128	11%	12%	280%	*124%*
Business & financial services	6.1	115	*137*	214	26%	20%	86%	*56%*
Community, social and personal services	4.6	69	*109*	196	21%	19%	185%	*81%*
By type of organisation								
General government	6.8	109	*117*	180	23%	17%	66%	*54%*
Economic infrastructure	*8.2*	*56*	*49*	*79*	*10%*	*8%*	*42%*	*60%*
Social infrastructure	*7.9*	*29*	*27*	*49*	*5%*	*5%*	*68%*	*81%*
Economic services	*4.5*	*25*	*41*	*53*	*8%*	*5%*	*109%*	*29%*
Public corporations	5.5	41	*55*	109	11%	10%	163%	*97%*
Economic infrastructure	*5.3*	*29*	*41*	*101*	*8%*	*10%*	*244%*	*148%*
Economic services	*6.2*	*12*	*14*	*7*	*3%*	*1%*	*-40%*	*-49%*
Private business enterprises	6.0	283	*345*	760	67%	72%	169%	*120%*
By type of asset								
Residential buildings	11.2	104	*67*	134	13%	13%	30%	*99%*
Non-residential buildings	8.8	61	*51*	62	10%	6%	2%	*23%*
Construction works	8.5	62	*53*	189	10%	18%	204%	*256%*
Transport equipment	3.8	52	*100*	115	19%	11%	121%	*16%*
Computer and telecoms equipment	0.5	2	*24*	30	5%	3%	1653%	*24%*
Machinery and other equipment	5.8	129	*164*	412	32%	39%	218%	*151%*
Research and development	6.2	24	*29*	38	6%	4%	56%	*33%*
Computer software	0.7	0	*3*	36	1%	3%	12818%	*1209%*
Mineral exploration and evaluation	17.8	7	*3*	2	1%	0%	-70%	*-28%*
Cultivated biological resources	9.6	10	*7*	12	1%	1%	18%	*55%*
Transfer costs	9.5	22	*17*	19	3%	2%	-16%	*10%*
Total fixed capital formation	**5.7**	**404**	***518***	**1 049**	**100%**	**100%**	**160%**	***103%***

Source: StasSA, SARB & BER

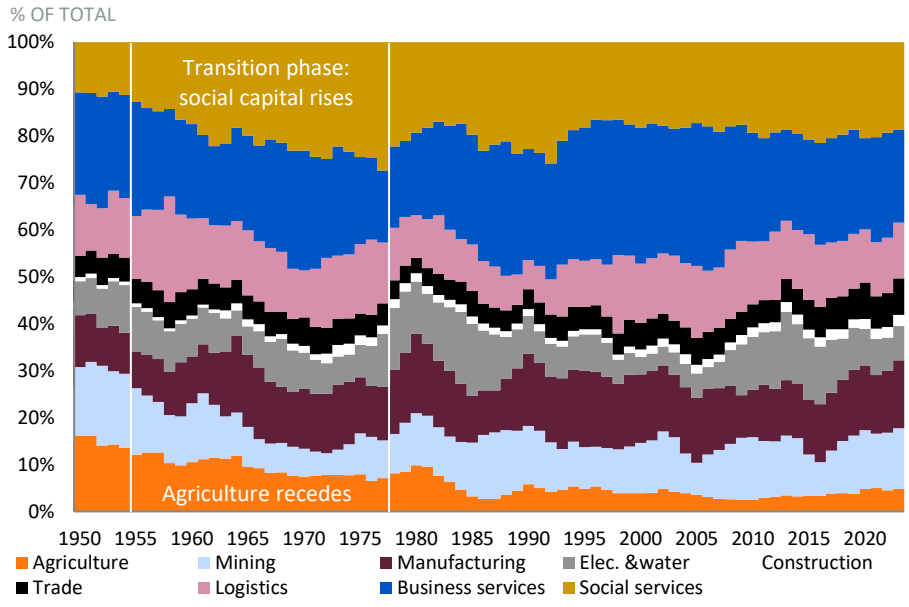
Regarding investment by different economic sectors (activity), the distribution did not change drastically between 1993 and 2023. Back then, 26% of fixed investment happened in the business and financial services sector, with only 1% in the construction sector. In 2023, 20% of investment was in the business sector and 2% in construction. Investment in construction capital (largely machinery and equipment) increased substantially (340% in volume), though it remains the smallest among all the sectors. The price of capital increased the most in the agricultural sector; at 7.6-fold, it's up 33% more than capital in general (5.7-fold). The low increases in capital costs in the logistics and communications sector are related to massive advancements in computer technology in the last three decades.

In the case of investment by type of investor (organisation), the private sector's contribution increased from 67% in 1993 to 72% in 2023. The volume of investment by private companies increased by 169% over this period, while that of government increased by only 66% (below GDP growth). Investment in economic infrastructure increased by only 42%, somewhat below population growth (55% over the same period).

By asset type, a significant portion (39% in 2023) of investment is towards machinery and equipment, followed by construction works (18%) and residential buildings (13%). This is not drastically different to the distribution in 1993. Of note is the volume surge of investment in computer software (128-fold), while prices therein declined even in nominal terms (deflator < 1). However, it remains a small part of total investment (3%).

Figure 11 shows the long-run trends in fixed investment and the transition phases in economic development. Most prominent is how the share of investment in agricultural capital declined while that of social infrastructure increased.

Figure 11: Gross fixed investment by economic sector since 1950



Source: SARB & Stats SA

In 1950, the share of fixed investment was 16% in agriculture; this gradually declined to only 3% by the mid-80s, with a small rise to 6% by 2023. As stated above, such a change is typical when economies advance and become less rural. The decline was countered by higher social service investment, from 11% in 1954 to 27% in 1977. Thereafter, its share subsided again, stabilising at around 20% in the last 15 years. The large investment in two giant power stations by Eskom

(Medupi and Kusile) is also visible between 2005 and 2013 when the share of electricity and water rose from 5% to 15%.

FIXED CAPITAL STOCK

All the accounts discussed above are, in essence, recorded as financial flows (as depicted in Figure 1). However, these flows impact balance sheets and stock accounts. Net fixed investment accumulates over time to form the capital stock. Economic output (GDP) is fundamentally the result of labour that leverages capital to produce goods and services. The more capital per labourer, the more leverage (productivity) is applied to their labour and the higher the output per worker. For this reason, the growth in capital stock is one of the most essential factors determining long-term economic growth. In South Africa, the volume of total capital stock increased by 64% from 1993 to 2023, less than the GDP increase of 100% (see the table below). This implies that capital is currently more productive than before (yielding 52%, compared to 42% in 1993), which is an increase of 22%. Yet, capital per capita is up by only 6% over thirty years, hardly a game changer.

Table 6: Capital stock account

	Deflator	R billion (2023 prices)			% of total		30y % increase	
		1993vol	*1993val*	2023	1993	2023	Volume	*Value*
By kind of economic activity								
Agriculture, forestry and fishing	9.1	419	*336*	485	4%	4%	16%	*44%*
Mining and quarrying	7.9	629	*581*	886	7%	7%	41%	*53%*
Manufacturing	7.6	1 016	*972*	1 196	11%	9%	18%	*23%*
Electricity, gas and water	6.7	525	*570*	1 568	6%	12%	199%	*175%*
Construction (contractors)	6.1	36	*43*	106	0%	1%	195%	*147%*
Wholesale, retail, hotels & restaurants	7.2	353	*361*	575	4%	4%	63%	*60%*
Logistics & communication	6.1	818	*971*	1 165	11%	9%	42%	*20%*
Business & financial services	8.6	2 533	*2 144*	4 156	24%	31%	64%	*94%*
Social & personal services	5.1	1 994	*2 833*	3 475	32%	26%	74%	*23%*
By type of organisation								
General government	7.7	2 410	*2 292*	3 593	26%	26%	49%	*57%*
Economic infrastructure	*9.4*	*1 176*	*918*	*2 372*	*10%*	*17%*	*102%*	*158%*
Social infrastructure	*8.9*	*698*	*571*	*916*	*6%*	*7%*	*31%*	*60%*
Economic services	*5.1*	*565*	*807*	*434*	*9%*	*3%*	*-23%*	*-46%*
Public corporations	6.2	1 320	*1 553*	2 187	18%	16%	66%	*41%*
Economic infrastructure	*6.0*	*1 133*	*1 384*	*2 088*	*16%*	*15%*	*84%*	*51%*
Economic services	*7.0*	*178*	*186*	*100*	*2%*	*1%*	*-44%*	*-46%*
Private business enterprises	6.8	4 592	*4 945*	7 854	56%	58%	71%	*59%*
By type of asset								
Buildings and construction works	7.8	6 532	*6 126*	10 370	70%	76%	59%	*69%*
Transport equipment	3.2	354	*813*	739	9%	5%	109%	*-9%*
Machinery and other equipment	4.9	754	*1 120*	1 416	13%	10%	88%	*26%*
Information and communication	0.5	4	*63*	151	1%	1%	3451%	*139%*
Other	7.3	692	*689*	936	8%	7%	35%	*36%*
Total capital stock	**6.9**	**8 313**	***8 811***	**13 613**	100%	100%	64%	*54%*
Capital yield (output ratio)		*42%*		*52%*			*22%*	
Capital per capita (R'000)		*210*		*222*			*6%*	
Formal sector employment (million)		*9.5*		*12.8*			*35%*	
Capital per formal sector employee (R'000)		*874*		*1062*			*22%*	

Source: StasSA, SARB & BER

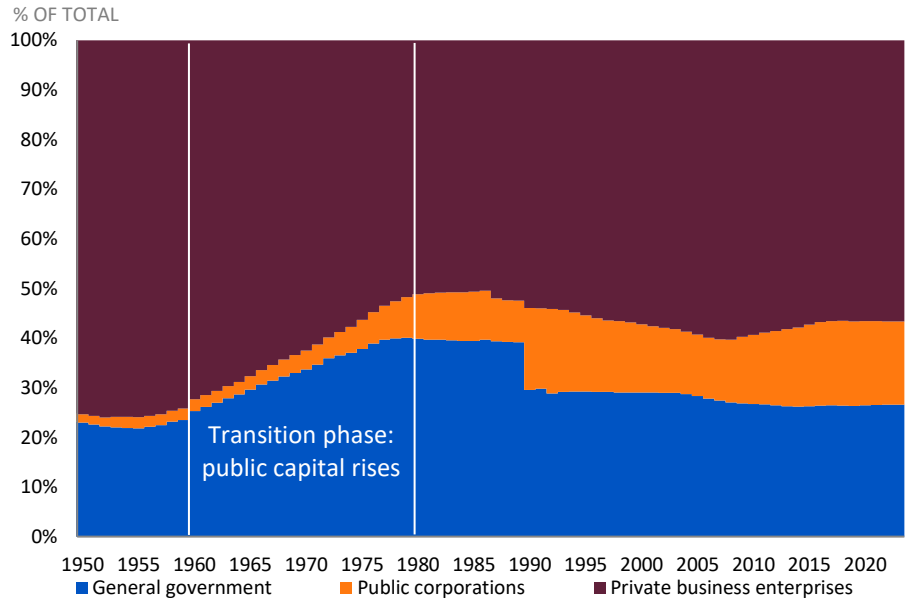
Looking at capital stock by economic sector, the biggest increases were in the electricity and water sector (199%) and the construction sector (195%). Ironically, capital productivity is severely down in the electricity

and water sector. Even though it has nearly three times the capacity, output was up only 15% in 2023 compared to 1993 (see Table 1). For electricity only, generation increased by a mere 28% in thirty years (Statisitcs South Africa, 2024), less than population growth (55%). The sector where most capital is present currently is the business services sector, at 31% of the total. This is followed by the social services sector, at 26%. Back in 1993, the shares of these two key sectors were approximately swopped.

Private enterprises own 58% of the capital stock, slightly up from 56% in 1993. While the share of capital stock owned by government was unchanged at 26%, the share of public corporations fell from 18% to 16%. Meanwhile, the composition of capital owned by the government has changed; in 1993, nearly half of it was economic services (government business enterprises), while now two-thirds is economic infrastructure.

By type of asset, the largest portion of capital stock is buildings and construction works (76%), by far. A large share of this is residential housing. The volume of buildings is up by 59% since 1993, barely above population growth and explains the meagre rise of 71% in rental expenditure and the increase in the real cost of rent. Interestingly, the stock of vehicles (transport equipment) doubled since 1993, though the real value thereof declined by 9%. It seems that in the priority list of South Africans, cars trump houses (see also Table 3). However, cars depreciate much faster than houses, which makes it less suitable for accumulating wealth.

Figure 12: Ownership of the fixed capital stock since 1950

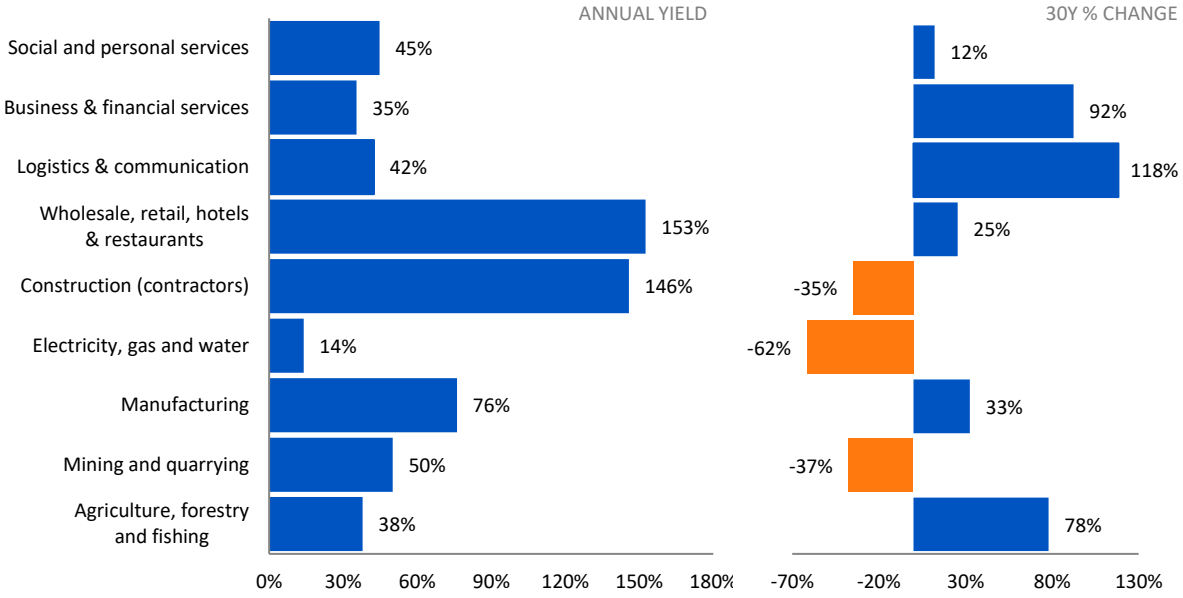


Source: SARB & Stats SA

In the 1950s, the private sector owned more than 70% of the fixed capital stock. This changed gradually in the 1960s and 1970s as the public sector (general government and public corporations) embarked on an extensive investment drive. By 1979, nearly half of fixed capital was owned by the public sector. There have been no drastic changes in these ratios since then. Of note is the structural change in 1990. At this point, some key strategic firms, operated directly by government departments, were transferred to newly created public corporations (such as the SA Railways and Harbours Administration, which became Transnet).

The capital performance (yield) of the main sectors of the economy differs substantially. Overall, the yield was 52% in 2023, though in the domestic trade sector (wholesale, retail, hotels and restaurants), it was 153% and in construction 146%. In contrast, electricity and water sector capital yielded only 14%.

Figure 13: Capital yield in 2023 (left) and change therein from 1993 to 2023 (right)



Source: SARB & Stats SA

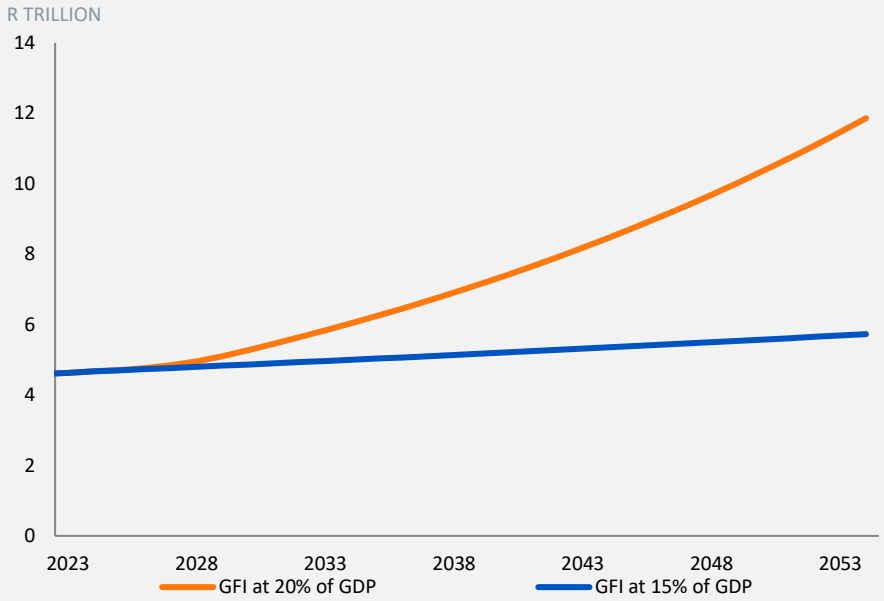
Compared to 30 years ago, capital yields improved in seven sectors, much of this driven by the advancement of computer technology (such as communication and banking). Yields also improved markedly in the agricultural sector, most likely as crop yields improved gradually due to genetic technology. In contrast, yields dropped by 62% in the electricity and water industry, from 36% in 1993 to 14% in 2023. This fall reflects the troubles haunting Eskom over the last two decades. Yields also dropped by 37% and 35% in the mining and construction sectors, respectively.

Box: Looking forward - what if government can grow investment's share of GDP?

South Africa's capital stock has expanded by only 64% (in volume) since 1993, which in part accounts for the slowdown in economic growth in recent years. Chronic underinvestment in fixed capital is a large part of the problem, exacerbated by a much higher depreciation rate. The latter gradually increased from 5.2% in 1994 to above 7.2% since 2008. Looking forward, the question can now be asked: what if government could return to the intent of the RDP, GEAR, AsgiSA and the NDP to bolster investment and rein in consumption? What size would the capital stock and related GDP be over thirty years from now? We can illustrate the possibilities with a simple GDP simulation[14] by adjusting the fixed investment component to allow for faster capital accumulation.

[14] In this simulation the annual yield on capital is taken at 52.8% and the annual depreciation rate at 7.2%, the average both were in the last 10 years (2013 to 2023). It is a static simulation and does not take into account other factors that may impact on econmic growth.

Figure 14: Real GDP if fixed investment was at 20% of GDP (constant 2023 prices)



On average, gross fixed investment was 16% of GDP from 1994 to 2023; public[15] fixed investment was 5.1% and government consumption at 18%. From 1950 to 1993, total fixed investment was at an average of 21% of GDP, public investment at 9.6%, and government consumption at 12%. Suppose in 2024, the GNU gradually lowers its share of consumption from 18% to 14% by 2029, while raising public investment from 5% to 9%. This will increase gross fixed investment to 20% of GDP from 2029 onwards - call it the high investment scenario. As such, a simulation of capital stock and GDP from 2024 to 2054 results in a GDP that is 107% higher than the low investment scenario (with GFI at 15% of GDP). The high investment scenario results in an average annual economic growth rate of 3.2% (about 2.5% above the 0.7% of the low investment scenario).

The difference in outcome between the two investment scenarios will also cause a major difference in employment outcomes. Assuming the same capital-to-labour ratio as in 2023, the high investment economy will be able to formally employ 32.8 million people by 2054. Out of an estimated working age population of 54 million[16] people, this implies a formal employment rate of 61%, which is a significant improvement on the current 31.4% (2023). In the case of the low investment scenario, only 15.8 million formal sector jobs will be available, which translates into a formal employment rate of only 29.5%.

As stated above, this is a very simplistic exercise that does not consider human resources, management abilities, and various other social and political factors that determine a nation's destiny.

[15] General government and public corporations.

[16] Trend projection of the growth rate in the working age population, virtually similar to the median UN projection of 2024.

SUMMARY

The system of national accounts (SNA) is a systematic method of accounting for the aggregate supply and demand in a national economy. It captures information such as sectoral structure, ownership, spending and investment patterns, trade, capital endowment, and more.

GDP is derived by three methods that should align to the same total: income, production (aggregate supply) and expenditure (aggregate demand).

South Africa's national accounts provide significant insight into the economy's performance over many decades. By comparing the national accounts data of 1993 with 2023, we find the following:

1. GDP doubled, more than the 55% expansion in total population, causing a 29% increase in GDP per capita.
2. South Africa underperformed compared to the rest of the world, where GDP per capita expanded by 70% over the same period.
3. Income inequality increased, mostly due to lacklustre job creation but also because owners of capital received a larger portion of national income than before.
4. The structural composition of the economy did not change significantly in the last three decades, most of the transition from primary to secondary to tertiary sectors already happened before 1994.
5. Export earnings increased substantially due to much higher commodity prices, predominantly due to a significant rise in demand from China.
6. Households enjoy the utility of more durable and semi-durable goods, largely due to affordable supply from China.
7. Besides the direct benefits from the advancement of information technology, it also neutralised a significant portion of inflation, thereby indirectly contributing to higher real growth rates.
8. Household access to utilities such as electricity and water improved somewhat, though housing conditions remain below that of the typical middle class.
9. Fixed investment, especially by the public sector, was insufficient to grow the capital base to reach the goals set out in the RDP, GEAR and subsequent economic plans.
10. On top of insufficient investment in power generation, mismanagement at Eskom significantly reduced the yield on capital, exacerbating the energy shortage.

South Africa's economic performance has been disappointing in the last thirty years. Many of the dreams and visions of the RDP and GEAR were not realised due to underinvestment and mismanagement. Luckily, economic openness allowed for spillover growth from the international scene, mostly from China, which boosted export earnings and lowered import costs. Growth was also supported by a lower cost base, brought about by the advancement of information technology.