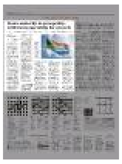

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From austerity to prosperity: rethinking spending for growth

The state must increase investment in infrastructure for the social value and jobs it can create

Duma Gqubule, Kristal Duncan-Williams and Clotilde Angelucci

Our population is mainly young. One in two young South Africans is unemployed. As the medium-term budget policy statement approaches, the call for economic growth has never been more pressing, but we can do more with what we have.

With less than 1% GDP growth expected this year, SA teeters between economic recovery and stagnation. While the Covid-19 pandemic exposed the deep inequalities permeating our society, it also showed our nation's ability to roll out a mix of interventions that can revitalise our economy while providing dignity to our citizens.

It is against this backdrop that we must look at our potential. SA is a youthful country, with 42.3% of the population younger than 25. But half of young South Africans are unemployed, and their lived experiences reflect systemic barriers that keep them locked out of the economy.

Data shows that SA struggles to create jobs for young people. Of the 784,000 jobs created over the past year only 45,000 went to those younger than 25. Because of the positive correlation between GDP and employment, there is critical urgency to rethink government spending and realign our potential with the right resources, to promote growth.

We must do so by retaining and strengthening our basket of interventions to build a scaffold of support that enables young people to engage with and contribute to the labour market — the social relief of distress (SRD) grant and presidential employment stimulus (PES) — while increasing investment spending, which can increase GDP growth.

SA is the most unequal country in the world, with half the population living in poverty. This has an economic effect. A 2022 survey by Youth Capital exposed the reality that eight in 10 young people must choose between buying food and looking for work. However, international research reveals that social protection and targeted cash transfers play a key role in reducing inequality and alleviating poverty while promoting labour market participation. The SRD grant can therefore play a key role in promoting social stability.

The grant was launched in March 2022 at the onset of the Covid-19 lockdowns, and initial evidence shows it is an investment in our social fabric, supporting families to put food on the table. In SA the SRD grant has enabled individuals to engage in economic activities by subsidising job-seeking, providing capital to grow side hustles, and even helping informal trader businesses survive. Dividends from such support ripple throughout our society, reducing poverty and boosting consumer spending in local economies. These are essential ingredients that ultimately stimulate economic growth.

Building on the evidence and lessons of the employment programmes under the Expanded Public Works Programme, the PES was established in response to the recession after the lockdowns. The scale of the programme is unprecedented, with the stimulus creating more than 1-million short-term opportunities from the end of 2020 to October 2022.

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Struggling to earn: Every day there are young people in SA who are confronted with poor infrastructure, resulting in them being geographically and digitally cut off from economic opportunities. /Unsplah/Den Harrson

The stimulus involved a broad list of government departments, with sectors from education to social employment, agriculture and the creative sector. It was bold in targeting young people, for the majority of whom the programme constituted their first-ever work experience. The programmes were paid at national minimum wage and included on-the-job training and skills transfer; some participants reported using the experience to fund their side hustle, while others leveraged work experience for their next steps.

Youth Capital's analysis confirms that future versions of the programme need to include design improvements such as monitoring and evaluation, increased access to training and diversified exit pathways. Despite these recommendations the PES is a step in the right direction.

SA's infrastructure is in dire need of repair. Every day, young people share the challenges they face due to poor infrastructure — geographically and digitally cut off from economic opportunities and struggling to earn an income.

Because of the link between economic infrastructure and economic growth, we urgently need to divert funds to improve this.

Gross fixed capital formation, a measure of investment in the economy, collapsed to 14% of GDP in 2022, far below the National Development Plan (NDP) target of 30%. Public investment by the government and state-owned companies was 4% of GDP in 2022, also far below the NDP target of 10%.

The government must increase its investment in infrastructure, for the social value it can create and its high GDP and employment multipliers. Such spending creates jobs for many people with relatively low levels of education and supports the private sector with resources to grow their business and create employment.

SA is at the crossroads. Growth, not debt consolidation, must be considered the national priority. Public sector expenditure can unlock our potential by enabling economic and socioeconomic development, subsidising individuals' transitions into the labour market while stimulating economic demand and bolstering community development.

Prosperity in SA is within reach, but to achieve it we need to relook the role that debt consolidation plays. If our economy doesn't grow, the future of our country is at stake.

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