

Racial inequality and demographic change in South Africa

Impacts on economic development

Over the past 20 years, researchers have been looking at the economic lifecycle of individuals around the world using National Transfer Accounts (NTA) data. The focus of this research has been on understanding how societies produce, consume, share, and save resources across generations, how these patterns differ across countries, and how they impact the economy as the population ages. However, an important question that has only recently begun receiving attention is how these patterns differ across groups in the same country.

Racial inequalities in South Africa

In the case of South Africa, there are stark and persistent racial inequalities which are important to consider when analysing differences in the patterns of resource flows between the state and individuals and between individuals and households. Variations by race in access to jobs, reliance on social grants, and the share of income deriving from asset ownership are some factors that influence the economic lifecycle of individuals. These differences inform our understanding of the potential effects of population ageing and demographic change on the trajectory of economic development.

Under apartheid, the population was categorized into four groups, referred to today in South Africa as African, Coloured, Asian, and White.¹ While these categories no longer have any official status, they continue to be used in demographic statistics, particularly for monitoring progress on racial equality. Research using NTA data shows that there continues to be marked differences between these population groups in terms of the economic lifecycles and socioeconomic status of individuals in South Africa.

For example, average lifetime work-related earnings for Whites are much higher than for other groups and most significantly higher than the average for Africans — earnings peak at R300,000 a year on average for white people, while for Africans the peak is R70,000.

FINDINGS

Lifetime patterns of producing, consuming, sharing, and saving resources differ markedly by race in South Africa.

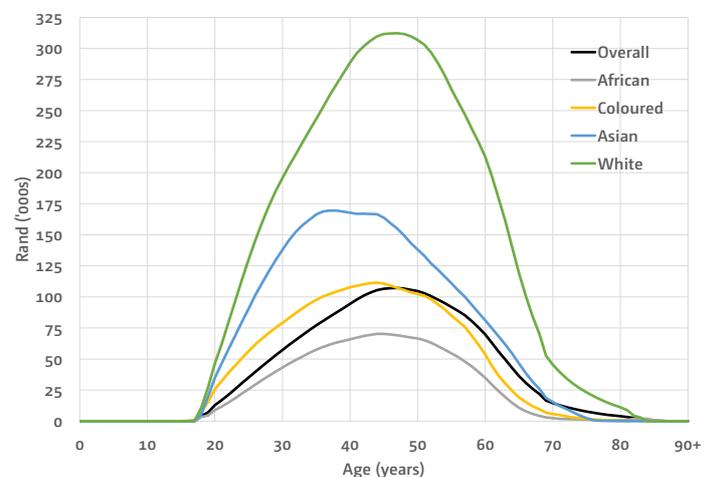
Africans make larger private transfers to others, relative their income, than any other population group.

The state plays a more important role in financing consumption for the young and the elderly among the African and Coloured population groups.

As they age, Whites are able to depend primarily on lifetime savings to finance consumption, while Africans are more likely to rely on state transfers.

Demographic change is expected to boost economic growth in South Africa, but this impact may be eroded by racial inequalities.

Figure 1: Income from work by race over the lifecycle



¹These population groups are defined by Statistics South Africa. The classification is used to track post-apartheid progress on racial equality and is based on the population groups which were historically segregated under the apartheid system. The African group refers to non-white Africans, White to people of primarily European descent, Coloured to people with mixed or indigenous ancestry, and Asian to people of primarily Asian descent.

Africans earn less than any other group. Older African adults also share more with individuals in other households and make substantially larger transfers to members of their own households than any other group, in relative terms.

These findings are consistent with previous research that shows that poorer South African households tend to form around elderly recipients of the state old-age pension. The result is that overall resources in South Africa flow strongly from older to younger generations, which is true for all race groups.

The distribution of resource transfers by group

Transfers from the state — which include social grants and spending on education, health, and other services — are very important in covering the consumption gap (the difference between money spent and money earned from work). This is particularly true for Africans, for whom total transfers from the state exceed total transfers from other individuals and households.

Africans receive the largest share of state transfers and they also receive more than they contribute to the state over their lifetimes. This is entirely consistent with their relative socioeconomic disadvantage, as is expected in any country where fiscal tools are used in a progressive way to lower poverty and reduce inequality. Overall, Africans receive around 80% of all transfers from the state and contribute around 50% of all transfers received by the state.

For African children, transfers from the state finance around 60% of their consumption gap, compared to around 40% for Coloured children, and virtually 0% for White children. This is not to say that White children receive nothing from the state; rather, what they receive from the state is balanced out by White contributions to the state, largely in the form of taxes on consumption.

The role of age

The way that individuals finance their consumption changes dramatically as they age, particularly after they retire. First, there is a shift from being net givers of transfers to being net receivers of transfers, as direct support from younger individuals grows. At

the same time, older South Africans become more reliant on government support, or transfers received indirectly from the younger generation.

This is especially true for Africans, who become almost entirely reliant on transfers from the state by the time they are in their eighties, and for Coloureds, for whom state transfers account for around 60% of the consumption gap. Elderly Whites, though, continue to give more to the state than they receive, as they continue to receive high incomes even after retirement from pensions, savings, and other assets accumulated over their lifetimes.

The impact of demographic change on economic development

As is the case in countries around the world, the South African population is becoming older on average as fertility rates fall. This ageing of the population can have important consequences for economic growth and development through extra economic growth caused by the working-age population becoming a larger part of the total population.

Part of this 'demographic dividend' is due to the corresponding growth in the national stock of savings, particularly as the largest age groups near retirement. This increase in savings can raise productivity and boost economic growth further if the elderly have saved for their retirement rather than relying on support from younger groups.

Overall, the data suggests that this part of the demographic dividend is occurring in South Africa, and that the nation will see extra growth as the population ages. However, once we account for racial inequalities, it is clear that Whites are more likely to have saved and that Africans, due to their historically disadvantaged position within the economy, are more likely to be reliant on transfers financed by younger workers. Since future population ageing is going to be almost entirely driven by ageing among the African population, racial inequalities reduce the economy-wide prospects for demographic dividends.

This brief is based on WIDER Working Paper 24/2019
'Inequality and the generational economy: Race disaggregated national transfer accounts for South Africa',
by Morné Oosthuizen.

IMPLICATIONS

Improvements in access to quality jobs are urgently needed to address racial inequalities. This would be an effective way of reducing racial disparities in lifetime earnings and consumption.

A more developed social security system would help reduce inequality and relieve the pressure on poorer families to provide for older generations.

For South Africa to benefit from an ageing population, a supportive economic and institutional context must be created to encourage saving for retirement to help fund consumption in old age.

