**An exploration of the determinants of South Africa's personal savings rate**

***- Why do South African households save so little?***

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A research project submitted to the Gordon Institute of Business Science,

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## ABSTRACT


Savings plays an important role as a national buffer against international capital fluctuations and as a critical ingredient for economic growth. South Africa has a low national savings rate by international standards, an outcome that has flowed from a declining trend in domestic savings in recent years, to the point where the South African Reserve Bank reported that households had started to dis-save during 2006 and 2007. In view of the importance of savings, the state of South African savings is cause for concern.

The determinants of household saving have been examined extensively in the literature on savings behaviour. The application of the theoretical determinants of savings to specific economies, however, has been the subject of debate as a result of the dynamic nature of savings behaviour and the fact that the interaction between theoretical savings determinants (and therefore the anticipated savings behaviour outcome) is influenced by country-specific social, demographic and economic conditions.

Accordingly, this paper seeks to distil the determinants of South African household savings behaviour with reference to the expert opinions of South African economists, to gain an understanding of the actions to be taken in order to improve the savings behaviour of South African households. The key findings of the study indicate that South African household savings are impacted negatively by the prevalence of an aspirational culture in which consumption is encouraged by access to credit facilitated by South Africa's sophisticated financial sector. In addition, governmental policies with regard to wealth distribution and welfare payments contribute to the creation of a culture of dependence and a reduction in household savings.

The outcome of the study has various policy implications, including the proposals that government should be engaged to increase financial education of consumers and that the use of fiscal tools (such as tax incentives to encourage savings) and compulsory savings schemes, should be considered.

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**DECLARATION**

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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**Germien du Plessis**

Date: _______________

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**ACRONYMS AND TERMS**

| | |
|---|---|
| AIH | Absolute Income Hypothesis |
| CAGR | Compounded Annual Growth Rate |
| GDP | Gross Domestic Product |
| HDI | Household Disposable Income |
| LCH | Life Cycle Hypothesis |
| LSM® | Living Standards Measure, a scale of 1 to 10 developed by the South African Advertising Research Foundation, which categorises individuals according to their living standards (with LSM 1 representing a low living standard and LSM 10 a high living standard) |
| MPS | Marginal Propensity to Save |
| PDI | Personal Disposable Income |
| PIH | Permanent Income Hypothesis |
| SASI | South African Savings Institute |
| SARB | South African Reserve Bank |
| Second economy | The informal economy which exists at the fringe of South Africa's 'first economy', consisting of large numbers of unemployed people who often do not benefit from progress in the first economy. |

# 1 Introduction to the research problem

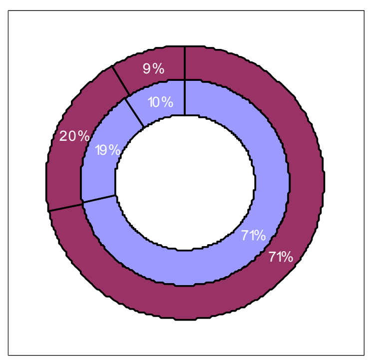
## 1.1 Background: the importance of saving

From a macro-economic perspective, national saving plays an important role as an economic shield against international financial turbulence and as a stimulant for economic growth, given that saving is the basis for investment (as dealt with in more detail in section 1.2). This dual role is particularly relevant at the time of writing hereof, in the context of the 2008 global financial crisis and its potential impact on the South African economy.

Domestic saving is constituted of saving by government, the corporate sector and households (Prinsloo, 2001, 5). The relevant contribution of each of these sectors to the national savings rate is detailed in Table 1.1 and Figure 1.1 below.

**Table 1.1 and Figure 1.1: 2007Q4 and 2008Q1 gross national saving by the corporate sector, governments and households, as a percentage of Gross Domestic Product (GDP)**

| | 2007Q4 | 2008Q1 |
|---|---|---|
| Gross saving as a percentage of GDP | 13.5 | 13.7 |
| Gross saving by the corporate sector as a percentage of GDP | 9.7 | 9.8 |
| Gross saving by government as a percentage of GDP | 2.5 | 2.7 |
| Gross saving by households as a percentage of GDP | 1.3 | 1.2 |




Source: SARB Quarterly Bulletin (2008b, 10)

Stals (2001, 4) notes that 'were it not for the continued good rate of saving maintained by corporates and an important reduction in dis-saving by general government in recent years, South Africa would by now have become entirely dependent on the unreliable and unpredictable source of foreign direct investment for the financing of its capital expansion programmes’.

The potential positive impact of domestic savings by the South African government and corporate sector, is however eroded by the declining personal savings rate, to what Luüs recently described as ‘abysmal levels’ (Luüs in Pickworth, 2007, 1). Net household saving declined from 30% of disposable income in the 1960s and 10% in the 1990s, to 0.60% in 2005 (Ebrahim in Gillingham, 2008). Economic data published by the South African Reserve Bank (SARB) (2008a, 10) indicate that, during 2006 and 2007, South Africa regressed to a negative saving rate (as detailed further in section 1.3).

On a national level, one of the negative impacts of South African’s low household saving is that the associated consumerism has contributed to escalating local inflation. Sentance (2007, 293) notes that ‘where asset prices are showing growth, increased consumer spending and reduced personal saving can be maintained. However, in the absence of strong underlying asset growth, continued growth in consumption may lead to increased inflation’. Between April 2005 and June 2008, the SARB increased the South African repurchase rate (being the rate at which the SARB lends money to private banks) with 500 basis points from 7% to 12%, in terms of a monetary policy framework aimed at targeting inflation[1].

On the level of individual households, saving also plays a role as a protection mechanism against the vagaries of economic changes. Such protection is of particular importance in developing economies, where governmental financial protection mechanisms are often lacking.

[1] www.reservebank.co.za

Having cognisance of the importance of household saving as a contributor to a country's domestic saving (and therefore a factor in ensuring financial stability and growth) and as a shield for individual households, as well as the potential negative impact of consumerism on the inflation rate, the low South African household saving rate is of significant concern.

South Africa's monetary policy measures have to date been aimed at containing household consumption, whereas more limited consideration has been given to specific measures aimed at encouraging savings behaviour. An understanding of the factors driving savings behaviour is a critical component in designing policies aimed at promoting saving.

An intuitive approach to the determinants of saving may simply point to the role of relative income levels. However, a number of high-income countries have shown decreasing to low saving rates in recent years: in this regard, Guidolin and La Jeunesse (2007, 491) state that 'the US saving rate…is at its lowest level since 1933, the bleakest year of the Great Depression'. In contrast, certain low to low-middle income countries (including India and China) have established an opposite trend, to the extent that a number of commentators question whether a country such as China 'saves too much' (Lu and McDonald, 2006, 283; Makin, 2006). The answers to the savings issue therefore do not appear to be as simple as one would intuitively assume.

This study accordingly seeks to:

- gain an understanding of the general determinants of household saving, through a review of the literature on savings behaviour;
- distil the determinants of South Africa's low household savings rate, through one-on-one interviews with South African economic experts; and

- formulate proposals with regard to the improvement of South Africa's household savings rate, with reference to the suggestions advanced in the course of the expert interview process.

The section which follows, provides further detail in respect of the roles of saving (section 1.2) before discussing the low level of household saving in South Africa (section 1.3) and setting forth the research objectives, scope and relevance (section 1.4).

## 1.2 **The macro-economic and household roles of saving**

Saving as a domestic economic shield

During the latter part of 2008, the global economy faced a financial crisis which resulted in a significant devaluation of assets worldwide, a reduction in the availability of liquid credit and widespread recession fears.

A number of governments effected measures aimed at shielding their economies, including legislation passed by the American House of Representatives on 3 October 2008 which authorised the American government to purchase up to US$700 billion of 'troubled mortgage assets' from financial firms, in the hope of improving confidence in the American mortgage-backed securities markets and the financial firms participating in those markets (Herszenhorn, 2008, 2).

The financial crisis also extended it reach to emerging markets. 'As foreign capital has fled and confidence evaporated, the emerging world's stockmarkets have plunged (in some cases losing half their value) and currencies tumbled. The seizure in the credit market caused havoc, as foreign banks abruptly stopped lending and stepped back from even the most basic banking services…' (*The Economist*, 2008, 11).

South Africa's exchange rate policies have shielded the South African economy from the global financial crisis, as investments by South African institutions in the various financial instruments at the core of the credit crisis (including so-called sub-prime mortgages), have been limited and public- and private sector liabilities are mostly rand-denominated (Manuel, 2008b). However, South Africa has not been spared from emerging economy instability, with the rand weakening by almost 20% to the US Dollar in October 2008, the largest decline since August 1985 when the apartheid government suspended debt payments (Theunissen, 2008). In addition, South Africa has experienced significant capital outflows, as indicated in Table 1.2 below.

**Table 1.2: Non-resident share and bond purchases: April to September 2008**

| Description | Apr, 2008 | May, 2008 | Jun, 2008 | Jul, 2008 | Aug, 2008 | Sep, 2008 |
|---|---|---|---|---|---|---|
| Net purchases of shares (1) | 4,044 | 218 | 2,787 | -6,123 | -3,428 | -7,579 |
| Net purchases of bonds (2) | 20,257 | -727 | 4,514 | 1,970 | -5,596 | -13,073 |
| Total net purchases of shares and bonds | 24,301 | -509 | 7,301 | -4,153 | -9,024 | -20,653 |
| **Cumulative net purchases of shares and bonds** | **-** | **23,792** | **6,792** | **3,148** | **-13,177** | **-29,677** |

Sources: (1) The Johannesburg Securities Exchange and (2) The Bond Exchange of South Africa, as quoted in the SARB Capital Market Update: 23 October 2008

In the wake of increased economic uncertainty, questions abounded with regard to the measures which could have been taken to avoid the financial crisis, and the mitigating measures to be instituted in order to prevent further value destruction. Economic theory is however a multifaceted field in which a multitude of factors interact with each other to produce a dynamic outcome. The identification of an economic panacea is therefore complicated.

However, it is acknowledged that domestic saving reduces an economy's reliance on international cash inflows for its trade requirements. In this regard, Prinsloo (2001, 8) states that 'in an environment of increasing financial integration, a high level of domestic saving helps to ensure macro-economic stability…' The author refers to the potential negative imbalance between domestic saving and domestic investment in an open economy that trades with other economies, and notes that such difference would be reflected in the surplus on the current account of the balance of payments, 'which must be financed by importing saved funds from the rest of the world'. As a result, domestic saving acts as a shield against the financial turbulence which may arise through dis-investment decisions of the international investment community.

The significant Rand devaluation experienced in October 2008 can, in part, be explained by the interaction between South Africa's current account deficit (which stands at 8.1% of GDP for the first half of 2008 (Manuel, 2008b)), and the fact that such deficit had been financed by liquid investments which were withdrawn over a short period. Such current account deficit had, in turn, resulted in part from capital investment spending and import consumerism in the absence of matching domestic savings and export income.

<u>Saving as a stimulant for economic growth</u>

Apart from its shielding function, savings also act as a stimulant for economic growth. With regard to developing economies, Mikesell and Zinzer (1973, 1) state that 'the savings rate … is regarded as a key performance indicator by development economists, and foreign aid practitioners admonish their clients to increase their savings ratio as a primary condition for achieving a satisfactory rate of economic growth'.

In a similar vein, Modigliani (1986, 297) notes that ‘the study of individual thrift and aggregate saving and wealth has long been central to economics because national saving is the source of the supply of capital, a major factor of production controlling the productivity of labor and its growth over time.’

Prinsloo (2001, 8) also notes that the macro-economic stability to which domestic saving contributes, is ‘in itself is a powerful factor for economic growth’.

Saving as a household shield

On the level of individual households, savings play a role as a shield against unforeseen events and resultant unplanned expenditure. This is particularly relevant in developing economies, where institutional insurance for lower-income earners is often not available or affordable and where government support for medical aid, retirement benefits and the like may not be adequate.

Furthermore, household savings improve the quality of life of a household, as accumulated savings lead to the ability to acquire more durable consumer goods and, eventually, investment assets. In developing economies (where economic upliftment is often a key governmental objective), household savings therefore play an important role in contributing to household financial stability.

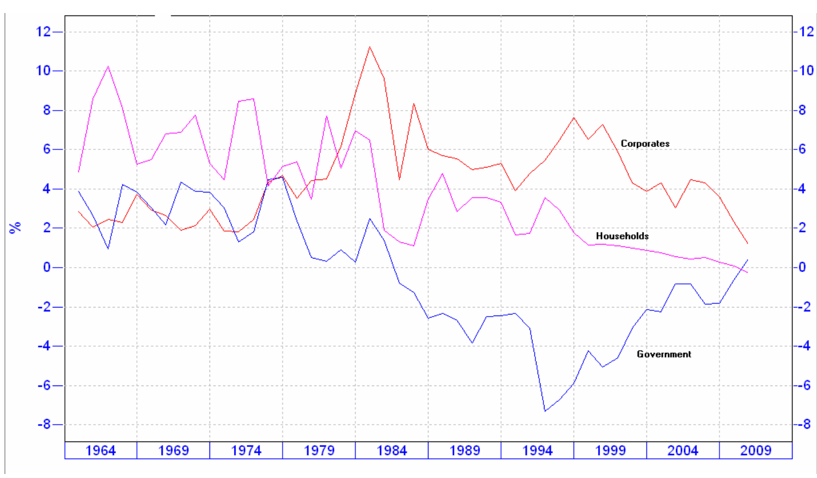
## 1.3 **South Africa’s personal saving rate**

In a statement released by the South African Savings Institute (SASI) (2006, 4), Laubscher comments that ‘although it can be argued that the rising household debt burden and commensurate low savings are partly due to an ongoing process of financial deepening in the economy, it nevertheless points at the absence of a savings culture'. Mostert (in Gillingham, 2008, 2) similarly states that 'The problem in South Africa is that we do not have a savings culture; we would rather spend on current needs.'

This state of affairs exists notwithstanding that South Africa has experienced a period of GDP growth, coupled with significant increases in real property values, decreases in personal income tax rates, an advanced financial services industry and a retirement fund industry which is 'well established' and 'highly sophisticated in world terms' (Mostert in Gillingham, 2008, 2).

Saving can be classified as domestic saving (which includes government-, corporate- and household saving), private saving (which includes corporate and household saving) or personal saving (which refers to the saving of households and its individual members) (Aron and Muellbauer, 2000). As indicated in Figure 1.2, corporate and household saving has shown a declining trend in recent years, whilst government saving has reversed its dis-saving trend.

**<u>Figure 1.2</u>: South African corporate, household and government saving: 1964 to 2008**




Source: Jac Laubscher, Sanlam (2007, 10)

From a domestic (national) savings position, South Africa is ranked 102nd out of 134 countries, as indicated in Table 1.3 below.

**Table 1.3: Comparison of national savings rates as a percentage of GDP: 2007**

| Rank | Country / Economy | % | Rank | Country / Economy | % |
|---|---|---|---|---|---|
| 1 | Kuwait | 67.5 | 41 | Argentinia | 27.2 |
| 2 | Azerbaijan | 59.9 | 51 | Chile | 25.5 |
| 3 | Qatar | 57.9 | 52 | Zambia | 25.3 |
| 4 | Algeria | 53.7 | 59 | Uganda | 24.0 |
| 5 | China | 52.2 | 69 | Australia | 21.6 |
| 6 | Singapore | 51.3 | 71 | Turkey | 21.4 |
| 7 | Lesotho | 49.2 | 74 | Mexico | 20.4 |
| 8 | Namibia | 45.2 | 76 | Jamaica | 20.2 |
| 9 | Nigeria | 44.9 | 77 | Ghana | 20.1 |
| 10 | Saudi Arabia | 44.3 | 86 | Brazil | 18.1 |
| 11 | Mongolia | 44.0 | 89 | Ethiopia | 17.2 |
| 12 | Libya | 43.9 | 91 | Zimbabwe | 16.9 |
| 13 | Botswana | 41.2 | 93 | Cambodia | 16.8 |
| 14 | United Arab Emirates | 40.4 | 94 | Kenya | 16.7 |
| 15 | Brunei Darussalam | 39.8 | 102 | South Africa | 14.1 |
| 16 | Norway | 38.9 | 106 | United Kingdom | 13.6 |
| 17 | Malaysia | 37.5 | 107 | United States | 13.6 |
| 18 | Switserland | 37.1 | 122 | Mozambique | 11.1 |
| 19 | India | 35.4 | 128 | Tanzania | 8.6 |
| 20 | Hong Kong SAR | 34.7 | 133 | Malawi | -6.6 |

Source: World Economic Forum: Global Competitiveness Report (2008, 395)

Table 1.4 details salient information with regard to South African household disposable income (HDI), saving and debt for the period 2000 to 2007.

**Table 1.4: South African HDI, saving and debt: 2000 to 2007**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Disposable income per capita of households (at current prices); in Rands | 13,450 | 14,486 | 16,038 | 17,196 | 18,720 | 20,421 | 22,590 | 25,277 |
| *--- % change* | - | *7.7%* | *10.7%* | *7.2%* | *8.9%* | *9.1%* | *10.6%* | *11.9%* |
| Gross disposable income of households (at current prices); in R'millions | 569,590 | 625,300 | 702,401 | 773,123 | 857,114 | 937,466 | 1,048,232 | 1,172,394 |
| *--- % change* | - | *9.8%* | *12.3%* | *10.1%* | *10.9%* | *9.4%* | *11.8%* | *11.8%* |
| Net household saving (at current prices); in R'millions | 6,922 | 5,451 | 5,026 | 6,338 | 3,673 | 1,264 | (5,164) | (6,885) |
| *---% change* | - | *-21%* | *-8%* | *26%* | *-42%* | *-66%* | *-509%* | *-33%* |
| Household saving to disposable income (at current prices) (%) | 1.2 | 0.8 | 0.7 | 0.8 | 0.4 | 0.1 | -0.5 | -0.6 |
| Household debt to disposable income (at current prices) (%) | 53.3 | 52.6 | 50.6 | 52.4 | 56.6 | 63.4 | 71.1 | 76.5 |

Source: SARB Quarterly Bulletin (2008a, 128, 149-150)

South African households have experienced a steady decline in saving over the period from 2000 to 2007, to the point where households were found to be dis-saving in 2006 and 2007. This trend is of particular concern when viewed in conjunction with the fact that:

- at the start of the data series, household saving represented only 1.2% of HDI (and that the decline in savings has therefore been from a low base); and
- over the same period, there has been a marked increase in household debt as a proportion of HDI.

Nga (2007) comments that the household saving ratio has declined substantially over the past two decades and that such saving ratio has now reached its lowest levels since 1952.

A comparison with savings rates in other jurisdictions assists in placing the South African household savings rate into perspective. Such comparison is however complicated by the fact that different jurisdictions utilise different methodologies in determining their household savings rates. In developing economies in particular, 'inadequacies and lack of comparability of data' complicates a comparison of data (Mikesell and Zinser, 1973, 1). As a result, a comparison of savings rates should be viewed as an indicative barometer and not as an absolute comparison.

In this regard, Table 1.5 provides comparative information in respect of South Africa's household savings rate.

**Table 1.5: Comparison of household savings rates**

| Household savings as % of disposable household income | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Australia | -3.2 | -2.2 | -0.8 | -0.5 | 0.3 |
| Austria | 8.7 | 8.9 | 9.3 | 9.7 | 10.6 |
| Canada | 2.6 | 2.9 | 1.6 | 2.3 | 2.4 |
| Czech Republic | 2.4 | -0.5 | 0.6 | 0.0 | 1.2 |
| France | 12.7 | 12.6 | 12.1 | 12.1 | 13.1 |
| Germany | 10.3 | 10.4 | 10.5 | 10.5 | 11.1 |
| Japan | 3.9 | 3.5 | 3.0 | 3.7 | 3.2 |
| Korea | 3.9 | 6.3 | 4.7 | 3.9 | 3.9 |
| Netherlands | 7.6 | 7.4 | 6.3 | 6.4 | 6.1 |
| South Africa | 0.8 | 0.4 | 0.1 | -0.5 | -0.6 |
| Sweden | 10.5 | 9.6 | 8.7 | 8.3 | 9.9 |
| Switzerland | 9.1 | 8.5 | 8.4 | 9.3 | 10.1 |
| United States | 2.1 | 2.1 | 0.5 | 0.4 | 0.7 |
| United Kingdom* | 4.9 | 3.7 | 5.6 | 5.0 | 3.3 |

Source: OECD Economic Outlook 82 database; South Africa: SARB (2008a, 150)

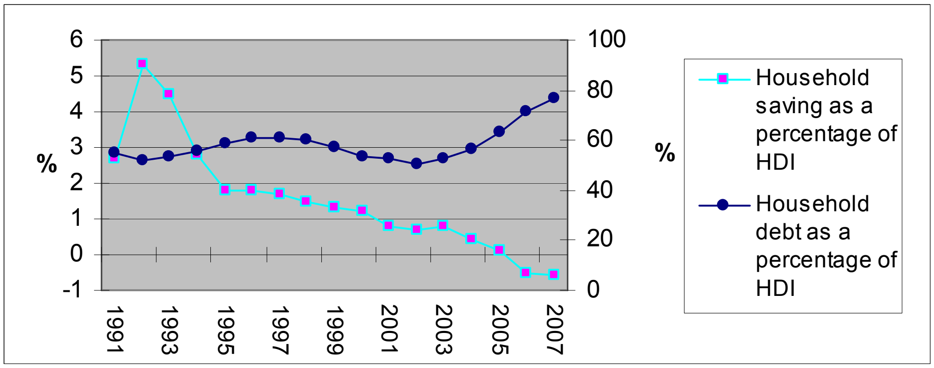
Note: Most countries report household saving on a net basis (excluding consumption of fixed capital and include the saving by non-profit institutions. The Czech Republic, France and Japan report household saving only.

* The household saving for the United Kingdom is presented on a gross basis.

South Africa also has a low savings rate relative to other emerging markets, and even amongst fellow countries within the Southern African Development Community (Bester, Hendrie, Hobden, Hougaard, Ketley and Musa, 2008, 3). In addition, South Africa households are increasingly contributing a smaller portion to national savings than the corporate sector and government (SARB, 2008a, 10).

Figure 1.3 details household saving and household debt as a percentage of HDI over the period from 1999 to 2007, indicating that a trend of higher debt and steadily decreasing household savings has been in effect since 1993, and has shown a marked acceleration in 2005 to 2007.

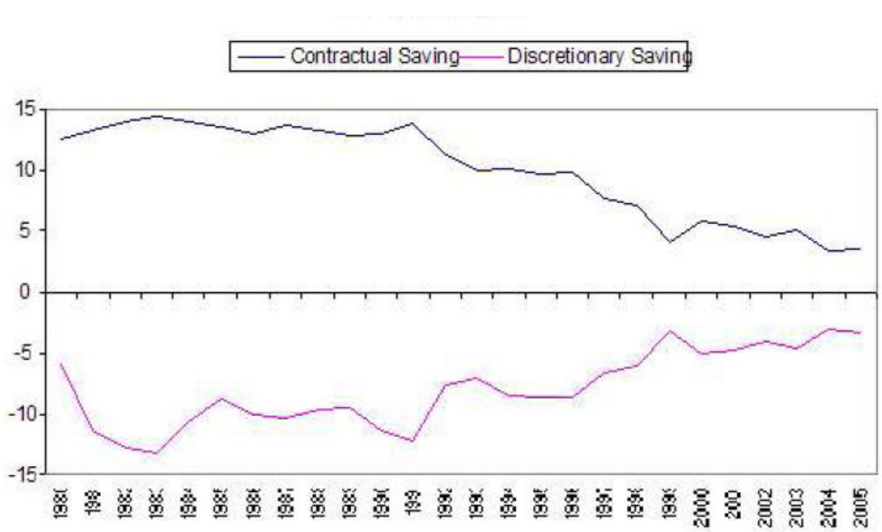
**<u>Figure 1.3</u>: Household saving and debt as a percentage of HDI**




Source: SARB (2008a, 128, 149-150)

An additional consideration in respect of South African household savings, is the interaction between contractual saving (including pension and provident saving) and discretionary saving. Figure 1.4 indicates the decline in contractual saving combined with a reduction in discretionary dis-saving, demonstrating the substitution processes prevalent between contractual and discretionary saving.

**<u>Figure 1.4</u>: Components of net household saving as a percentage of GDP**




Source: Strydom (2007, 7)

## 1.4 **Research objectives, scope and relevance**

The research objectives

The aim of the research is to distil the determinants of South Africa's low household savings rate, and to formulate proposals with regard to how South Africans' household savings behaviour can be improved, with reference to one-on-one interviews with South African economic experts.

The research scope

The research focuses only on South African personal (household) savings behaviour, and does not consider to the factors underpinning government and corporate savings.

A well-known Keynesian equilibrium condition holds that:

S (savings) = I (investment)

The research however focuses only on households' election with regard to the savings decision, and not on their concomitant decision as to the choice of investment vehicles for accumulated savings. Literature pertaining to risk propensity and its correlation to savings and investment behaviour has therefore not been considered.

The scope of the study includes an examination of the following:

(a) the theoretical points of departure with regard to savings behaviour;

(b) the question as to whether a low savings rate can simply be attributed to low income, and whether the poor save;

(c) the general determinants of household saving in different economies, with an emphasis on developing economies;

(d) the determinants of the high savings rates in Singapore, China and Malaysia, with the aim of gleaning lessons to be learnt by South Africa from these economies;

(e) the determinants of savings behaviour in South Africa, with reference to the expert opinions of South African economists; and

(f) proposals with regard to measures to be taken to improve South African household savings rates.

The research relevance

Aron and Muellbauer (2000, 509) note that 'low domestic savings rates in South Africa may hinder investment-driven growth in the medium term', whilst Luüs (in Pickworth, 2007, 1) states that there is a 'dire need for South African households to embrace a culture of saving because the domestic economy is experiencing a supply-side crisis'. Luüs' view is that, in order to address this crisis, an increase in fixed capital formation is required, which will have to be financed by savings.

In discussing the impacts of the global economic slow-down in his 2008 Medium Term Budget Speech, Trevor Manuel, the Finance Minister, confirmed that: 'Amongst the economic challenges ahead, we need to lift our rate of national savings…'.

The potential positive impact which household savings can have on the South African economy, given the local impact of the global financial crisis and South Africa's domestic growth challenges, renders the discussion about household savings rates particularly relevant at this point in South Africa's economic development.

# 2 Literature review

## 2.1 Introduction

Harjes and Ricci (2005, 53), in writing about South African saving behaviour, state that: '… despite the progress in understanding consumption and saving behaviour, no model has successfully encompassed the complexity of factors that influence saving'. Added hereto, limited empirical studies have been conducted in respect of this area of South African economic behaviour.

## 2.2 Definition of personal saving

Aron and Muellbauer (2000, 515) state that 'personal saving in the national accounts is conventionally defined as personal disposable income minus consumer expenditures. Consumer expenditures include expenditures on consumer durables, but not on the acquisition of owner-occupied housing, which is treated as part of saving.'

With reference to the definition of saving used by the SARB, Prinsloo (2000, 3-4) defines household saving as 'that part of current income, after payment of direct taxes, that is not consumed or transferred as part of household current consumption'.

Prinsloo further extends this definition, by stating that saving:

- includes (a) current disbursements made in a reduction of household liabilities (such as repayment of capital on loans for housing and consumer durables), (b) regular and recurring employer and employee contributions to pension and insurance funds and the interest charged on those funds, and (c) retained income of unincorporated business enterprises and non-profit institutions serving households; and

- excludes (a) current household expenditure financed by credit and (b) capital gains and losses.

Prinsloo (2001) also differentiates between two categories of personal saving, namely contractual saving (such as premiums on insurance policies, contributions to pension funds and the capital amount payable on households' mortgage bonds) and discretionary saving (namely saving where households are not bound by fixed commitments). In South Africa, discretionary saving is significantly lower than contractual saving and has, in recent years, been negative (Stals, 2001).

It should be noted that savings rates are defined with reference to the relevant individual or household's disposable income and not as an absolute amount, with the result that the saving rates of poorer rural households can, as found by Horioka and Wan (2007), be higher than that of higher-income urban households.

## 2.3 Theoretical points of departure: Keynes, Modigliani and Friedman

### Background

A number of theories have been formulated which seek to explain individual saving behaviour. Keynes (1937 in Modigliani, 1986, 298) developed early thinking on the subject in the form of the absolute income hypothesis, which was followed by Modigliani's life-cycle hypothesis of saving (1954) and later by the permanent income hypothesis devised by Friedman (1957).

### Keynes' absolute income hypothesis (AIH)

Keynes (1937 in Modigliani, 1986, 298) views savings in the context of the theory of demand and the consumption function, and regards income as the main systemic determinant of both individual and national saving, asserting that the average household's propensity to save will increase as the household reaches a higher income level.

Saving is therefore regarded as one of the many 'goods' on which a consumer can spend his income. In contrast to other goods, the 'expenditure' on saving could however be negative, with the result that dis-saving is seen as typical of people or countries below a certain 'break-even' level of income.

The most common form of the Keynesian savings function is linear with a constant marginal propensity to save (MPS), as follows:

$$S = a_0 + a_1 Y_g$$

where:

$S$ = gross domestic saving

$\alpha_0$ = the intercept (with $\alpha_0 < 0$)

$\alpha_1$ = constant marginal propensity to save (with $0 < \alpha_1 < 1$)

$Y_g$ = gross national product,

with the result that, as the level of income rises, the average propensity to save (APS) will also increase. However, if the intercept $\alpha_0$ is positive or $\alpha_1$ is negative, then the APS will decrease with increases in income (Mikesell and Zinser, 2001).

Keynes (as quoted and re-classified in Browning and Lusardi, 1996, 1797) identifies eight motives for saving:

**Table 2.1: Saving motives: Keynes, Browning and Lusardi**

| | **Keynesian motives (1936)** | **Browning and Lusardi (1996)** |
|---|---|---|
| 1 | 'To build up a reserve against unforeseen circumstances' | 'The pre-cautionary motive' |
| 2 | 'To provide for an anticipated future relationship between the income and the needs of the individual…' | 'The life-cycle motive' |
| 3 | 'To receive interest and capital appreciation' | 'The intertemporal substitution motive' |
| 4 | 'To enjoy a gradually increasing level of expenditure' | 'The improvement motive' |
| 5 | 'To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action' | 'The independence motive' |
| 6 | 'To secure a masse de manoeuvre to carry out speculative or business projects' | 'The enterprise motive' |
| 7 | 'To bequeath a fortune' | 'The bequest motive' |
| 8 | 'To satisfy pure greed, i.e. unreasonable but insistent inhibitions against acts of expenditure as such (avarice)' | 'The avarice motive' |

Source: Browning and Lusardi (1996, 1797)

It is interesting to note that Browning and Lusardi, in research dated almost half a century after Keynes' work, add only a single further motive in the form of 'the down-payment motive' (to accumulate deposits to buy houses, cars and other durables), thereby underscoring the continued validity of Keynes' saving motives as an explanation for household savings.

Modigliani's life-cycle hypothesis of saving behaviour (LCH)

Modigliani and Brumberg (1954) propose the consumption theory known as the life-cycle hypothesis of saving, which assumes that individuals make rational choices and plan their consumption and savings behaviour by considering their needs at different ages. The basic underlying assumption is therefore that individuals spread their lifetime consumption evenly over their lives, by accumulating savings during earning years and maintaining consumption levels during retirement (Muradoglu and Taskin, 1996).

The LCH is based on utility maximisation and seeks to prove that the resources that a consumer allocates to consumption at any age *t*, will depend only on his life resources (being the present value of labour income plus bequests received, if any) and not on income accruing currently. Combined with the proposition that a consumer will choose to consume at a reasonably stable rate, close to his anticipated average life consumption, the conclusion is therefore reached that saving over relatively short periods (of, say, a year), will be swayed by the extent to which current income departs from average life resources (Modigliani, 1986).

The LCH therefore emphasises the importance of long-term income over the life cycle of the individual and the savings behaviour of individuals who 'spread their lifetime consumption over their lives by accumulating savings during early years and maintaining consumption levels during retirement' (Nga, 2007, 11). In comparison to Keynes' absolute income hypothesis, the key savings motive is to acquire wealth and monies for retirement. A fundamental assumption of the LCH is therefore that households are forward-looking and will try to maximise total utility as a function of current and future consumption.

The LCH predicts that the household saving rate will be a function of both 'the growth rate of per capita income and the age structure of the population' (Horioka and Wan, 2007, 2084), and that an increase in the young dependency ratios (namely the ratio of young economically inactive individuals to older, economically active individuals) will have a negative impact on the saving rate. Therefore, this model implies that in a society with a stationary population and income there would be no aggregate net personal saving, as the dis-saving of the retired would offset the saving of the employed. However, in a society with a growing population and/or growing per capita income, aggregate saving should be positive (Mikesell and Zinzer, 1973).

The rationality which is assumed to be embedded in human planning behaviour, has however been challenged in research which indicates the influence of the human tendency to procrastinate (O'Donoghue and Rabin, 1999) and 'systemic irrationality' in economic decision-making (Yang and Lester, 2008, 1223). This tendency is also confirmed by the research of Horioka and Wan (2007), who finds the presence of a lagging saving rate, which they ascribe to human inertia. Similarly, Shefrin and Thaler (1985, as quoted in Modigliani, 1986) suggest that even where households are concerned in principle with consumption smoothing, they may be too myopic to make adequate reserves.

Friedman's permanent income hypothesis (PIH)

Friedman (1957) proposes a further theory based upon the consumption function, in the form of the permanent income hypothesis. Similarly to Modigliani's LCH theory, this hypothesis stresses the importance of long-term income as the main determinant of household consumption (Strydom, 2007), but differs from the LCH primarily in that it 'models rational consumption and savings decisions under the 'simplifying' assumption that life is 'indefinitely long' (Modigliani, 1986, 299).

In its simplest form, the PIH linear equation is:

$$S_t = a_0 + a_1 Y_{Pt} + a_2 Y_{Tt}$$

where:

$Y_{Pt}$ = permanent income in year $t$

$Y_{Tt}$ = transitory income in year $t$.

Friedman draws a distinction between two sources of income, namely:

(a) permanent income, as defined in terms of a long-run expectation over a planning period (Miksell and Zinser, 1973) and a steady rate of consumption maintained over a lifetime given the present level of wealth (Muradoglu and Taskin, 1996); and

(b) transitory income, which is constituted of the difference between actual and permanent income, with differences arising as a result of 'temporary influences' such as 'a windfall gain or loss' (Samuelson and Nordhaus, 1995, 430).

Friedman assumes that individuals do not consume from transitory income and that transitory income will therefore immediately be channelled to saving, with the result that the marginal propensity to save on transitory income will approach unity (Muradoglu and Taskin, 1996).

Pertinently, for developing economies, Friedman (1957, as quoted in Nga, 2007) stated with reference to income inequality and saving that a reduction in the inequality of the permanent income status is neutral with reference to the saving ratio (*ceteris paribus*).

In this regard, Mikesell and Zinzer (1973, 9) confirm that 'empirical studies for developing countries show quite divergent marginal propensities to save out of permanent and transitory income' and find that 'most of the studies support the permanent income hypothesis', namely that saving out of transitory income is greater than saving from permanent income. It can therefore be argued that an inequality in transitory income increases the need to save, as a result of uncertainty about income prospects and the resultant need to save for emergencies (Nga, 2007).

A number of other studies point to the variations in saving behaviour between different income sources. These include Houthakker (1961), who finds that savings out of employment income tend to be zero in most countries, and Williamson (1968), who notes strong disparities between saving from labour and non-labour incomes in Asia.

The PIH postulates that 'under general assumptions, individuals prefer to smooth consumption over time and set it equal to the annuity value of the sum of assets and the present value of expected future labor income net of taxes', with the result that 'the effect on consumption of any change in income…will be distributed over time by changes in saving.' (Harjes and Ricci, 2005, 52).

Interestingly, both the LCH and the PIH predict that a temporary increase in current income will mostly result in additional saving, whilst a permanent increase in current income will mostly result in additional consumption (Harjes and Ricci, 2005).

## 2.4 **Can low savings simply be ascribed to low income?**

Do the poor save?

A large proportion of the South African population falls into the LSM 1-5 (low-income) category, comprised of approximately 20 million adults in 8.3 million households representing approximately 74% of all South African households (Bester, Hendrie *et al*, 2008, 1). As a result of the high representation of poor households in the population, South Africa's saving behaviour is popularly attributed to low income levels, high poverty levels and South Africa's high Gini-coefficient.

Bonnici and Scherban (2006, 125), however, refer to the erroneous belief that 'the more a person earns, the more a person saves and accumulates.' Similarly, Rutherford (2003, 2-3), in writing about the savings behaviour of the poorer classes in India, refers to the misconception that the poor 'are too poor to save'.

A recent study (Collins, quoted in Roth, Rusconi and Shand, 2007, 5) found that poor South African households save up to 25% of their income. A further study by Bester, Hendrie *et al* (2008, 11) confirmed this range and state that approximately a third of South Africans in the LSM 1-5 groups engage in savings behaviour. However, the study laments that 'while the poor do save, this saving often takes the form of small, irregular lump sums that are drawn for immediate or short-term purposes'.

A lack of a saving culture is also not limited to the lower-income levels, with Garbutt (quoted in Gillingham, 2008, 6) stating that a 'cause for concern is the wave of emerging middle-income customers who are very active in South Africa's retail stores, but do not appear to be as active in terms of providing for their retirement savings'.

The relationship between savings and income

One of the earliest comprehensive studies of the relationship between saving and per capita income was undertaken by Simon Kuznets in 1960. Although his results indicate a tendency for high per capita income countries to have higher saving ratios, the results are not consistent across jurisdictions and are not regarded as sufficiently convincing to warrant the formulation of a savings function related to per capita output as the single independent variable (Kuznets, 1960, as quoted in Mikesell and Zinser, 1973).

In fact, Kuznets' work provides 'clear evidence' that the savings ratio had not changed much such the middle of the nineteenth century, despite the large rise in per capita income (Kuznets, 1947, as quoted in Modigliani, 1986, 298).

Mikesell and Zinser (1973) juxtapose the Keynesian view that saving is a function of income (and income is a function of investment) with the neoclassical view of saving as a determinant of investment, and refers to the on-going debate regarding economic growth, which poses the questions as to (i) whether countries save a higher proportion of their income with a higher level of per capita income, and (ii) if the saving ratio is not uniquely related to per capita income, which income variables are associated with changes in the savings ratio?

The conditions under which poor people save

Rutherford (1996, 48) has written extensively on the savings behaviour of poor people, and has focussed not on whether poor people save, but under which conditions saving takes place.

Rutherford listed the conditions which incentivise saving by poor people, as being that they:

1 feel that their savings are secure;

2 feel they can gain access to their savings (as withdrawals or as loans);

3 have the opportunity to save often and easily;

4 see the example of others saving regularly;

5 feel under some social pressure to save;

6 feel they own their savings (i.e. the savings are not owned by a group); and

7 feel the savings are growing (by interest rates or bonuses) and protected from inflation.

The role of informal savings institutions

The occurrence of informal savings schemes in poorer communities bear testimony to the poor's need to save and systematic approach to savings behaviour notwithstanding difficult financial conditions. Roth, Rusconi and Shand (2007, 5), in a study focusing on saving by South Africa's poor, find that 'Poor households save through a wide variety of instruments, including bank accounts, informal saving schemes like Accumulated Savings and Credit Associations (ASCAs) and Rotating Savings and Credit Associations (RoSCAs) (often referred to as *stokvels* in South Africa), along with a number of specialised formal savings instruments such as compulsory pension schemes and Voluntary Long Term Contractual Savings plans'.

The FinScope™ Survey (2006) finds that approximately 7% of South Africans belong to a stokvel or savings club. When asking respondents about saving and investment products in the context of stokvels and savings clubs, this percentage however declines to 3% (which is attributed to the fact that many clubs save for consumption rather than investment).

The FinMark Trust (2007b, 3) summarises the most popular saving mechanisms used by South Africans, as follows:

**Table 2.2: Popular South African savings mechanisms**

| | Total % | Black % | White % | Coloured % | Asian % |
|---|---|---|---|---|---|
| Savings or current account at a bank | 28 | 24 | 54 | 32 | 29 |
| Burial society | 11 | 13 | 2 | 6 | 1 |
| Savings policies, endowments or life insurance | 4 | 2 | 15 | 6 | 3 |
| Stokvel / umgalelo or savings club | 3 | 4 | 0 | 0 | 4 |
| Retirement annuities | 3 | 2 | 14 | 4 | 2 |
| Post Office savings account | 2 | 3 | 0 | 2 | 0 |
| Improving your home | 2 | 1 | 7 | 2 | 2 |

Source: FinMark Trust (2007b, 3)

## 2.5 General determinants of saving behaviour

### Introduction

Savings behaviour in different jurisdictions is determined by a complex set of factors which impact upon and interact with each other.

In this regard, Mikesell and Zinser (1973, 1) state that 'a number of alternative savings hypotheses (derived mainly from the literature relating to developed economies) have been advanced, but the paucity of reliable data has made it difficult to test these hypotheses and obtain results which warrant a reasonable degree of confidence'. The authors also point towards the 'inadequacies and lack of comparability of data on savings in developing countries', which exacerbate the difficulty in comparing the savings function in these countries.

When attempting to compare savings behaviour in developing versus developed economies, the analysis is further complicated by the disparities in income levels. In this regard, Deaton (1989, 61-62) states that 'At the microeconomic level, developing-country households tend to be large and poor; they have a different demographic structure; more of them are likely to be engaged in agriculture; and their income prospects are much more uncertain. The problem of allocating income over time thus looks rather different in the two contexts, and the same basic models have different implications for behavior and policy.' The author also remarks that 'saving is even more difficult to measure in developing than in advanced economies, whether at the household level or as a macroeconomic aggregate. The resulting data inadequacies are pervasive and have seriously hampered progress in answering basic questions.'

Notwithstanding these constraints, the sections below examine the literature with regard to the general determinants of saving behaviour, with reference to the following categories of determinants:

(a) demographic characteristics (including age, gender and income);

(b) macro-economic indicators (including interest-, inflation- and growth rates);

(c) consumer behaviour; and

(d) structural impacts (including the role of pension fund legislation and the sophistication of a jurisdiction's financial and tax systems).

Demographic characteristics

Based on Modigliani's LCH, a number of studies have concentrated on the impact of demographic variables, such as age groups, birth rates and dependency ratios (Muradoglu and Taskin, 1996).

Deaves, Viet, Bhandari and Cheney (2007) find that demographic attributes such as gender, marital status, age and salary have an impact on saving behaviour. In particular, age and income appear to be positively correlated with increased contribution rates in respect of saving plans.

Income: Both the AIH and the PIH (as discussed earlier in this chapter) point toward the positive effect of income on savings. Although the LCH de-links current income from current savings, expected income over the lifecycle of the individual is also found to be positively correlated to savings behaviour.

Prinsloo (2002, 63) extends the income argument by stating that 'in general, the spending and saving behaviour of individuals is determined by various factors such as their material and social needs … standard of living, existing indebtedness, net worth and disposable income'. Whilst Prinsloo therefore argues the case in favour of income as a determinant of saving, he also recognises the role of a number of associated factors, including the role of the level of indebtedness. Kim, Garman and Quach (2005) confirm that household income is a significant predictor of contributions towards retirement saving.

Expectation of future income: In addition to considerations with regard to current income, Carroll and Weil (1994) devised a savings theory based on households' future income expectations, on the basis of two fundamental predictions of standard forward-looking models of consumption and saving, namely:

(a) expectations of higher future income will lead to higher present consumption (and therefore lower saving), as households smooth their consumption in the face of a rising income profile; and

(b) higher future income uncertainty will lower current consumption (and therefore raise saving) to the extent that households have precautionary savings motivations.

Age: Chamon and Prasad (2006), in a study focussing on Chinese saving behaviour, state that saving increases with age and is therefore highest for the elderly. Horioka and Wan (2007, 2079) utilises a life cycle model and panel data on Chinese provinces for the 1995-2004 period to identify the determinants of household saving in China. They state that one of the 'obvious candidates' is 'the age structure of the population…', thereby assuming that the LCH will, at least to an extent, find application in explaining China's savings rates.

The dependency ratio: A demographic variable often encountered in literature pertaining to savings behaviour is the dependency ratio, which is popularly defined as the share of the population under the age of 15 (the so-called youth-dependency ratio) or over the age of 65 (the so-called old-age dependency ratio). The rationale for use of the dependency ratio is that the young and elderly are expected to consume out of past savings, whereas the working portion of the population is expected to accumulate savings (Muradoglu And Taskin, 1996).

The youth dependency ratio was originally advanced by Coale and Hoover (1958), who expressed concern that high youth-dependency burdens would limit developing countries' ability to generate the savings required for sustainable domestic capital formation and economic growth. In an empirical study of the role of demographic changes on national savings and investment rates, Higgins (1998) finds that high youth-dependency ratios display a strong connection with current account deficits, with nations joining the ranks of capital exporters as they mature.

The study of dependency ratios in the Chinese context is particularly interesting as a result of the institution of a 'one-child policy' since 1979, with the result that the impact of the age structure (and therefore the dependency ratios) can be determined 'without concern about endogeneity issues (Horioka and Wan, 2007, 2078).

With reference to the life-cycle model of saving behaviour, Prinsloo (2000, 17) states that 'societies with a large section of the population in the younger age group are likely to have a comparatively low saving rate', whilst those with a high rate of population growth 'will tend to have a declining saving rate'.

<u>Family structure and intergenerational links</u>: Hammer (1986) argues the case for a causal relationship between savings behaviour and the number of children in a family, as the support of a next generation is perceived as an alternative means of maintaining income in old age (and therefore an alternative to saving in terms of the LCH).

<u>Gender</u>: The role of gender in saving decisions has been examined by Gerrans and Clark-Murphy (2004, 159) who state that, although their study supports a 'gender effect', this effect is not uniform and depends on marital status, age and whether the individual considers themselves to be informed.

Kajimo-Shakantu and Evans (2007, 84), in a study focusing on the saving behaviour of women in poor urban communities, state that saving is regarded as a 'woman's skill' because of the rigid gender-based division of roles which exists in South African society.

Culture: Stals (2001, 4) states that 'the propensity to save is part of the established culture of a nation'. In this regard, the author refers to East Asian economies, where 'households regard it as of great importance to have and maintain a comfortable 'nest-egg' in the form of accumulated saving'.

In discussing whether an endogenous relationship exists between culture and economic development, Frederking (2002, 106) states that 'cultural norms…like trust are types of symbolic credit which enhance the ability of individuals to cooperate and to forgo short run gains in transactions'.

Ogden, Ogden and Schau (2004) assert that culture (which can be represented by race or ethnicity) will impact one's preferences and, as a result, it is proposed that race and ethnicity could impact financial preferences. In this regard, Delpechitre (2007) suggests that, in comparison to many other ethnic groups, Asian Indians tend to spend less, save more and invest conservatively.

Macro-economic indicators

The macro-economic indicators most often associated with changes in the rate of personal saving, are the interest rate, inflation rate and income growth rate. Sentance (2007) notes with reference to the United Kingdom saving rate, that the savings ratio can be decomposed into two elements, namely (a) the accumulation of physical and financial assets, and (b) the accumulation of financial liabilities (for example new borrowing offset by the repayment of existing debt). The savings ratio is therefore the net amount that households save once account is taken of additional borrowing. Where the cost of debt (the interest rate) is low, new borrowings may grow more rapidly than the accumulation of assets, with a reduction in the saving balance.

Interest rates: Muradoglu and Taskin (1996, 147) state that 'according to intertemporal consumption decision, an increase in the rates of return increases savings but real income effects of higher rates of return can affect savings adversely'.

McAleese (2004, 315) notes that interest rates affect consumer spending (and therefore saving) through:

- substitution effects, namely that a decrease in interest rates makes savings less attractive for households and stimulates consumption;
- cash-flow (income effects), namely that a lower interest rate increases the cash flow of borrowers whilst reducing the cash flow of lenders; and
- wealth effects, namely that a fall in interest rates raises the value of housing, equity and bonds, which rise in asset values accelerates consumer spending.

Mikesell and Zinser (1973, 17) note that 'the relationship between interest rates and aggregate saving involves a number of complex theoretical and econometric problems… [including]… separating out income and substitution effects of interest changes' and states that 'interest rates are more significant in determining the channels into which savings will flow …than in altering saving propensities.'

The income-substitution effect (namely that the additional income earned from higher interest rates is off-set by the additional cost of debt instruments) therefore negatively impacts the potential positive savings impact from rising interest rates, where a high level of debt prevails. However, in the case of developing countries, 'assumptions about elasticity of substitution may not be realistic because a significant fraction of the population may not be able to borrow, even at black market rates' (Giovannini, 1985, 215).

With reference to the LCH, Prinsloo (2002, 74) states that, whilst households seek to maximise the benefits of consumption over their lifetime, 'interest rates indicate the terms of the trade-off between current and future consumption, whereas demographic variables and wealth are accordingly singled out as the potential causes of changes in consumer behaviour'.

<u>Inflation</u>: Both the positive and negative impacts of inflation on savings behaviour have been defended in empirical literature on individual savings behaviour. Muradoglu and Taskin (1996, 142) note that 'inflation expectations may encourage expenditures on durables at the expense of savings' whilst, on the contrary 'it is also suggested that inflation decreases the real value of financial wealth fixed in nominal terms, and households trying to restore their wealth-income position will increase their savings'.

Inflation and interest however also impact upon each other. For example, in considering the impact of interest rates, one needs to bear in mind the 'inflation effect', namely that on the assumption that nominal rates of interest are constant, a rise in the inflation rate lowers the real cost of borrowing and therefore has a positive impact on consumers' expenditure (and a negative impact on savings) (Muradoglu and Taskin, 1996, 141).

<u>Growth rates</u>: Strydom (2007, 4) describes saving as 'a function of dynamic growing economies' and therefore links positive savings behaviour to growth. The question as to the impact of the type of economic growth on savings behaviour, is emphasised by Luüs (in Pickworth, 2007, 2), who states that South Africa has, since 2002, 'experienced a substantial increase in property and share prices, which has further dampened the incentive for saving'.

Combination of variables: Horioka and Wan (2007) state that variations in the savings rate in China can be explained at the hand of the income growth rate, the real interest rate and, in some cases, the inflation rate. Modigliani and Cao (2004) find that the inflation rate, the reciprocal of the dependency ratio (namely the ratio of the employed population to the number of minors) and the long-term growth rate have significant positive impacts on the household savings rate.

With regard to the impact of macro-economic indicators on savings behaviour in developing countries, Muradoglu and Taskin (1996, 141) conclude that 'for developing countries the results confirmed the findings in many recent studies in which no definite relationship between real return and savings rates was observed'. The authors view this as strong evidence that the presence of well-developed and functional financial markets and higher household income levels make savings responsive to changes in the real returns of the economy (which factors are typically absent in developing economies).

Conspicuous consumption and consumer behaviour

The term conspicuous consumption was coined by Veblen (1899) to describe the behaviour of the *nouveau riche* (a class emerging in the nineteenth century as a result of the accumulation of wealth during the Second Industrial Revolution), and the trend of lavish spending on goods and services mainly for the purpose of displaying income or wealth in order to attain or maintain social status.

The role of consumption has been examined by Prinsloo (2002, 74), who states that a 'fundamental cause of the decline in households' saving is that consumers, at least to a certain extent, have rationally decided to lower their savings rates or alternatively to keep consumption expenditure at a relatively high level' and that 'the very low level of saving during 1999/2000 were accounted for by lower growth in real personal disposal income relative to growth in consumption expenditure by households – an indication that other factors have supported consumption growth'.

Consumption is also linked to the 'wealth effect', which postulates that households are ultimately concerned about their net worth, and that 'a fall in interest rates raises the value of housing, equities and bonds', which rise in asset values accelerates consumer spending (McAleese, 2004, 315). In this regard, Prinsloo (2002, 74) refers to the impact of the sharp rise in household wealth from 1993 onward as a result of increases in equity and house prices, and the consequent effect that 'a household's low saving rate is a sign that consumers feel comfortable with the evolution of their net worth and that they see little reason to curtail consumption as a way to increase their net worth even further'.

Prinsloo (2000, 17) however notes that the impact of the wealth effect is uncertain, as 'owner-occupiers of dwellings may perceive higher house prices as an addition to their wealth, and reduce their saving out of current income', whereas 'individuals planning to purchase their own houses may reduce their consumption in the wake of higher house prices as they will have to save more for higher deposits and repayments'.

<u>Structural considerations</u>

Structural considerations include the role of pension funds and the sophistication of a jurisdiction's financial and tax systems (Aron and Muellbauer, 2000).

<u>Pension and provident plans</u>: Mitchell and Utkus (2008) find that, as the world moves from defined benefit to defined contribution pension plans, the burden of making judicious savings and investment decisions is shifting

from employers to employees. The authors find that these structural changes are therefore resulting in lower saving, in the absence of targeted financial training.

In contrast, Humphreys (2007, 44) notes that 'China is much more tilted to investment and domestic consumption is a problem' and states that, as Chinese educational, health care and retirement systems become more widespread and sophisticated, Chinese consumers will no longer have the need for exceptional saving.

<u>Level of economic and financial market development</u>: Muradoglu and Taskin (1996, 149) find that 'the establishment of new and more sophisticated financial markets and adaptation of new instruments are crucial in increasing savings rates in developing countries'.

In contrast, Prinsloo (2002, 73) states that 'generally speaking, an inverse relationship can be expected between increases in the utilisation of consumer credit and the saving of private households over time', and that 'an increase in credit could entice consumers to buy now instead of postponing buying for the future.' Therefore, the availability of credit negates the need to save for future consumption.

Prinsloo (2002, 74) also refers to the impact of 'major financial policy and institutional changes, including the liberalisation of financial markets during the 1980s', which 'created many new lending opportunities for the financial sector' and states that 'the changes also whetted financial institutions' appetite for household lending'. It is Prinsloo's view that the general deregulation of the financial sector, has 'undoubtedly contributed to the rapid rise in outstanding credit and the concomitantly high level of household debt, resulting in a lower rate of household saving'.

Kay (2007, 1) postulates that, whilst liberal financial markets provide consumers with greater opportunities to save and to borrow, ‘they also expand opportunities to borrow even more than they expand opportunities to save’, and therefore notes that a wider range of investment opportunities does not necessarily lead to more saving, and finds that the more highly developed a country’s retail financial services, the less that country saves.

The impact of financial liberalisation is also discussed by Harjes and Ricci (2005), who argue that reduced borrowing constraints result in higher debt and lower cumulative saving.

Luüs (in Pickworth, 2007, 2) states that South Africa’s low level of personal saving is associated with the enormous increase in the willingness of individuals to incur debt, accompanied by the availability of a ‘mind-boggling range of credit facilities.’ Aron and Muellbauer (2000) argue that financial liberalisation and South Africa’s sophisticated financial system has had a negative impact on saving, by encouraging borrowing through easily obtained credit. Similarly, Strydom (2007) ascribes the declining saving ratio in part to the availability of credit for the financing of consumer durable expenditure.

<u>Taxation system</u>: Prinsloo (2000, 16) states that, although ‘there is no general agreement among economists about the impact that a rise in the real after-tax interest rate will have on people’s decisions to…save’, rising marginal personal tax rates together with high inflation eroded the real rate of return on saving in South Africa during the 1980’s, at a time when household saving showed a steady decline.

Stals (2001, 5) is of the view that the remedy for the low savings rate of private households in South Africa must be sought either ‘in a reduction of consumption expenditure as a percentage of total income, or in lower effective taxation, or in a combination of the two palliatives'. Stals believes that private households are reluctant to reduce consumption from any level, once established. As a result, 'a rise in taxes and particularly in direct income taxes is therefore normally followed by a reduction in saving, rather than in consumption'.

The author states that 'the significant part played by tax policies … in encouraging private households to increase contractual saving by providing for old-age pensions and unforeseeable contingencies cannot be under-estimated'. In this regard, Stals refers to the potential positive impact of allowing pension fund contributions to be deductible from income for tax purposes and to exempt pension funds from normal income taxes. Stals is also critical of the capital gains tax regime introduced to South Africa in 2001, and anticipates that such regime 'will further reduce the advantage for … long-term savers of the South African predominantly consumer orientated community to make maximum use of the opportunity to provide our of their own income for post-retirement'.

With regard to fiscal policies, Luüs (in Pickworth, 2007, 2) states that 'the tax system in South Africa heavily discriminates against saving, particularly by the more affluent'. This position is also emphasised by Strydom (2007), who states that South Africa's extensive redistribution fiscal policies will likely have a negative impact on household saving, as high marginal tax rates on individuals implies a tax burden on saving. Strydom also notes the impact of the large differential between South Africa's corporate tax rates (currently at 28%) and household income tax rates, which encourage arbitrage whereby income is channelled from households to corporates.

## 2.6 The saving rate in China, Malaysia and Singapore

Introduction

A number of Asia-Pacific economies have, over the last few decades, demonstrated high rates of economic growth coupled with high household savings rates, as indicated in Table 2.3.

**Table 2.3: Asia-Pacific economic indicators**

| | GDP (US$ billion) | | | Household savings rate |
|---|---|---|---|---|
| | 2005 | 2010 | 5-yr CAGR | 2005 |
| Japan | 4,560 | 6,085 | 6% | 3% |
| China | 2,225 | 3,741 | 11% | 16% |
| India | 798 | 1,294 | 10% | 22% |
| South Korea | 788 | 1,380 | 12% | 4% |
| Indonesia | 281 | 516 | 13% | 28% |
| Thailand | 177 | 290 | 10% | 6% |
| Malaysia | 130 | 198 | 9% | 23% |
| Singapore | 117 | 168 | 8% | 33% |
| **Comparison** | | | | |
| US | 12,487 | 16,703 | 6% | -0.3% |
| UK | 2,199 | 2,626 | 4% | 5% |
| Australia | 708 | 767 | 2% | -0.1% |

Source: Deloitte (2006, 8)

This section details the proffered rationale for the high household savings rates observed in China, Malayisa and Singapore, in an effort to identify specific courses of action which could be utilised in the South African household savings environment.

China

Kraay (2000) notes that the Chinese transition from a market economy has shaped the economic environment in which households' savings decisions are made, including in respect of:

- the collapse of the rural agricultural commune system, and the emergence of more secure property rights, sparking a boom in rural household saving in the form of property investment;

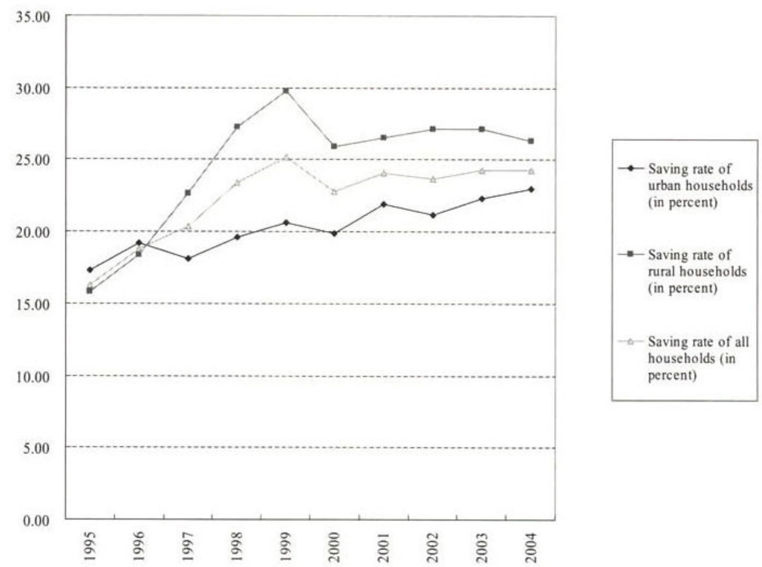
- the rapid development of China’s financial sector since the initiation of economic reform in 1978, the proliferation of bank branches and the growth of the rural banking industry, giving rural households access to banking institutions and a broader range of assets; and
- the rise in income levels from low levels (especially in rural areas), with the result that households are devoting a smaller share of their income to meeting subsistence requirements (and thereby leaving more income for savings).

Kraay (2000) notes that household saving rates in rural areas are substantially higher than those in urban areas, which is ascribed to the fact that urban households enjoy access to highly subsidised housing, education and health care, whereas rural households mostly rely on their own saving and their children for support in old age.

In contrast, Deloitte (2007, 6) comments that the Chinese financial system is relatively undeveloped with regard to consumers, as banks focus primarily on offering credit to state-owned enterprises, and only approximately 11% of total credit goes to households. As a result, the availability of consumer credit is limited. In addition, unlike in developed countries, ‘there is neither a government social safety net nor a well developed system of private insurance’. As a result, consumers are not able to mitigate the risk of extraordinary events such as illness and unemployment, and Chinese consumers consequently have a strong incentive to save for a ‘rainy day.’

Horioka and Wan (2007, 2078) state that ‘China has had by far the highest overall saving rate in the world since at least 2000, and the saving rate has increased even further since 2000 – to nearly 50% of GDP’. The authors ascribe this high savings rate to China’s rapid rates of economic growth as well as the low dependency ratio (as a result, in part, of the one-child policy instituted in 1979).

**<u>Figure 2.1</u>: Household savings rate in China: 1995 to 2004**




Source: Horioka and Wan (2007, 2082)

<u>Singapore</u>

Singapore's high savings ratio is attributed to a combination of factors, including:

- the declining dependency ratio observed in the 1970s to 1990s (in terms whereof a progressively greater percentage of the population fell in the working-age population);
- its economic growth and the resultant rise in household wealth;
- the role compulsory savings schemes (such as the Central Provident Fund) instituted by the government;
- the allocation of government-built apartment housing; and
- the Singaporean strong spirit of patriotism, in terms whereof Singaporeans attribute their economic prosperity to the national culture

of *'Kiasu'* (meaning 'afraid to lose'), which advocates a prudent approach to financial management (Nga, 2007).

Malaysia

The Malaysian government played a supervisory and regulative role in the reform of the financial sector, including through:

- the institution of public programmes to educate individuals in financial management;
- compulsory savings programmes; and
- savings instruments such as the Merkeda Savings Bond for retirees (Akhtar, 2004).

In addition, demographic changes (including a shift to smaller family sizes and slower rates of population growth) have resulted in households being able to save a greater proportion of their earnings (Nga, 2007).

## 2.7 **Specific determinants of South African savings behaviour**

The savings literature assists in providing a theoretical framework for savings behaviour. However, the practical savings position in a given jurisdiction may diverge significantly from the textbook example, as a result of the impact of local factors.

With regard to such divergence, Browning and Lusardi (1996, 1798) state that '…we shall present theory and facts concerning saving. At the outset we warn that there is a sharp dichotomy in the saving literature between the two. Although the theory is sophisticated and flexible, it is a theory of consumption; saving is simply the residual between income and current consumption. Thus the intertemporal allocation theory has led to a large empirical literature on consumption. In contrast, most of the empirical work on saving itself is descriptive and relatively atheoretical. Unfortunately the two strands of the literature are very imperfectly interwoven. The major goal of future work will be to integrate these two strands.'

In respect of developing countries, Deaton (1989) and Gersovitz (1988) additionally note the difficulty in applying developed economy theory to developing economies, due thereto that, in developing economies (i) households are dynastic and survive beyond individual members, (ii) households are indecomposable units and savings are decided at the household rather than individual level, (iii) households have lower and more uncertain income, (iv) borrowing constraints may be much more pervasive, and (v) savings provide a buffer for an uncertain and unpredictable income rather than intertemporal consumption smoothing.

In a study often quoted in South African savings literature, Prinsloo (2000, 16-23) lists the reasons for the decline in South Africa's saving rate for private individuals as including:

- rising marginal personal tax rates;
- persistently high rates of inflation over an extended period of time;
- demographic trends, in particular the absorption of more low-income people into economic activity;
- the relative rise in the number of younger people in the total economically active population of the country;
- the deregulation of financial institutions; and
- easier access to credit facilities.

In a recent study, Nga (2007) identified the main factors responsible for a lack of commitment to saving in the case of poor households in South Africa, as being a lack of income due to unemployment, insufficient income, over-consumption (due to conspicuous consumption and procedural rationality) and market failures, such as incomplete or no information, lack of financial literacy, cultural and political factors. The author notes that, despite the impact of these factors, there is evidence that South Africans 'do want to save'.

## 2.8 Conclusion

Harjes and Ricci (2005, 53) observe that '… despite the progress in understanding consumption and saving behaviour, no model has successfully encompassed the complexity of factors that influence saving'.

The theoretical foundation for savings behaviour is established through the AIH formulated by Keynes (1937 in Modigliani, 1986), Modigliani's LCH (1954) and Friedman's PIH, all of which are premised on income as a determinant of savings behaviour, on the basis that:

- in terms of the AIH, the average household's propensity to save increases as the household reaches a higher income level (Modigliani, 1986);
- in terms of the LCH, individuals make rational choices and plan their consumption and saving behaviour over their lifetimes (Muradoglu and Taskin, 1996); and
- in terms of the PIH, long-term income is regarded as the main determinant of consumption, but rational consumption and savings decisions are modelled under the assumption that life is 'indefinitely long' (Modigliani, 1986, 299).

The popular view in respect of savings behaviour is that low household savings rates can simply be attributed to low household income. However, Bonnici and Scherban (2006, 125) refer to the erroneous belief that 'the more a person earns, the more a person saves and accumulates' and Rutherford (2003, 2-3) refers to the misconception that the poor 'are too poor to save'. In a recent South African study, Collins (as quoted in Roth, Rusconi and Shand, 2007, 5) found that poor South African households save up to 25% of their income, whereas Bester, Hendrie *et al* (2008, 11) confirmed that approximately a third of South Africans in the LSM 1-5 groups engages in savings behaviour.

The general determinants of savings behaviour, as discussed in the savings literature, include:

- demographic characteristics such as age groups, birth rates and dependency ratios (Muradoglu and Taskin, 1996), income (Prinsloo, 2002) and culture (Stals, 2001);
- macro-economic indicators, including interest rates (McAleese, 2004), inflation rates (Muradoglu and Taskin, 1996) and growth rates (Strydom, 2007);
- consumer behaviour, including the role of conspicuous consumption (Prinsloo, 2002); and
- structural impacts, including the role of pension fund legislation and the sophistication of a jurisdiction's financial and tax systems (Aron and Muellbauer, 2000).

These factors have variously been confirmed as having an impact on the high savings rates observed in China, Malaysia and Singapore, as well as on South Africa's low household savings rates.

A dichotomy has however been observed between the theory and the facts concerning saving (Browning and Lusardi, 1997) and the relevance of applying developed economy theory to developing countries has been questioned (Deaton, 1989).

An evaluation of the determinants of South African household savings behaviour accordingly requires a consideration of factors in addition to the theoretical base established by the savings literature.

## 3 Research questions

The literature on savings behaviour notes a variety of potential factors which influence savings behaviour, including demographics, consumer behaviour, economic indicators (such as the inflation rate, interest rate and growth rate) and structural considerations (such as the developmental stage of a country's financial systems and the structure of its taxation and pension systems).

A review of the savings literature however demonstrated that, although savings behaviour has been examined extensively, the theoretical determinants of saving tend to provide only a snapshot perspective and fail to capture the dynamic nature of the various factors at work within the South African savings environment.

This position confirms the view of Harjes and Ricci (2005, 53) who, in writing about South African savings behaviour, state that '… despite the progress in understanding consumption and saving behaviour, no model has successfully encompassed the complexity of factors that influence saving'.

In the first instance, the research therefore seeks to provide answers to the following research question:

| |
|---|
| Research question one: |
| What are the main determinants of the South African household savings rate, in the view of selected South African economists? |

The South African government has, over the past two years, implemented a monetary policy framework aimed at targeting inflation.

'While monetary policy cannot prevent the firstround effects of supply-side shocks, it can, however, impact directly on household consumption expenditure. In the past few months there was clear evidence that consumption was responding to the change in the monetary policy stance. Household consumption expenditure grew at annualised rates of 3.3 per cent and 1.2 per cent in the first two quarters of 2008 respectively, significantly lower than the peak in excess of 9 per cent seen in the final quarter of 2006.' (SARB, 2008a, 25).

The monetary policy framework has the effect of discouraging behaviour which impacts negatively on savings. On the other hand, the question arises as to the actions which should be taken in order to actively encourage savings behaviour. The research accordingly also seeks to provide answers to the following research question:

| |
|---|
| Research question two: |
| Which actions should be taken to improve the South African household savings rate, in the view of selected South African economists? |

# 4 Research design and method

## 4.1 Introduction

This chapter details the research design and method which has been used to explore the research questions in Chapter 3, and notes the limitations which apply to such research design and method.

## 4.2 Research design

Background

In order to establish a relevant theory base, a literature review was conducted of the pre-existing body of knowledge in respect of the general determinants of savings behaviour, which focussed on:

- the economic theory in respect of savings behaviour (as espoused by Keynes, (1937 in Modigliani, 1986, 298), Modigliani (1954) and Friedman (1957); and
- the theoretical determinants of household savings behaviour, with a focus on the determinants applicable to developing economies in general.

Although such literature review provides a sound theory base, it fails to assimilate the local factors at play in respect of South African household savings, and does not result in a distillation of the specific determinants of South African household savings.

Following on the literature review, research was conducted on the basis of a qualitative approach, using a series of one-on-one expert interviews with selected South African economists, to gauge each participant's opinion on:

- the factors which influence South African household savings behaviour; and
- the proposed actions to be taken to improve South African household savings behaviour.

This approach was followed with the aim of contextualising the theory base to the South African savings industry.

## 4.3 **Research method**

Qualitative versus quantitative research

Yin (2003, 32) states that qualitative research is the most appropriate method when attempting to understand the components and characteristics of a phenomenon and trying to theorise around it. Denzin and Lincoln (1998, 8) state that qualitative researchers 'seek answers to questions that stress how social experience is created and given meaning'. Qualitative research typically utilises small samples to understand the way in which people think about a certain subject (de Ruyter and Scholl, 1998, 8).

In contrast with this approach, quantitative research is based on observations that are converted into discrete units that can be compared to other units by using statistical analysis (Maykut and Morehouse, 1994). As such, 'quantitative studies emphasise the measurement and analysis of causal relationships between variables, not processes. Inquiry is purported to be within a value-free framework' (Denzin and Lincoln, 1998, 8).

A qualitative research approach was regarded as being best suited to the proposed research, as a result of the need to gauge opinions about a phenomenon in respect of which Mikesell and Zinser (1973, 1) comment that 'the paucity of reliable data has made it difficult to test … [savings] …

hypotheses and obtain results which warrant a reasonable degree of confidence'.

Expert interviews

One-on-one interviews were conducted with South African economists, to gauge each participant's opinion on South African household savings behaviour, and to gain an understanding of each participant's thoughts and ideas within the context of their personal experiences as economists.

A number of research methods could have been employed to gauge the factors influencing South African savings behaviour, including questionnaires and focus groups involving South African households and consumers. In order to be relevant, such an approach would however have required the incorporation of appropriate populations and samples. Having regard to the heterogeneity of South Africa's population (including in respect of income levels, race and culture, education, age and access to financial instruments), the size and level of complexity of the required data set would fall beyond the scope of the research proposed.

Description of research method

A qualitative study was conducted with reference to primary data in the form of the opinions of senior South African economists, which data was gathered during in-depth exploratory interviews.

The unit of analysis was South African household savings rates, whereas the population of relevance capable of survey, consisted of South African economists.

Given the nature of the research problem, probability sampling was not appropriate to the study. As a result, potential participants were identified through non-probability sampling, which Zikmund (2003) describes as a sampling technique in which sample units are selected based on personal judgment or convenience.

Zikmund (2003) identifies four types of non-probability sampling, as follows:

- convenience sampling, which is based on the sampling units most readily available;
- judgement (purposive) sampling, whereby the sample is based upon the researcher's 'judgement about some appropriate characteristic required of the sample members' (Zikmund, 2003, 382);
- quota sampling, which is aimed at ensuring that certain characteristics of a population will be represented in the sample to the exact extent required by the researcher; and
- snowball sampling, being a technique whereby initial respondents are selected by probability methods and additional respondents are obtained from information obtained from the initial respondents.

Initially, individuals were identified on the basis of judgment (purposive) sampling; in this regard, an emphasis was placed on economists who are engaged in the South African banking and insurance sector or in roles associated with South African household savings, and participants were chosen so as to include individuals representing both genders as well as different races.

A number of participants were also identified in terms of snowball sampling, based upon referrals from other individuals initially contacted. In particular, Marisa Fassler (Chief Director of Macroeconomic Policy: South African National Treasury Department) provided referrals with regard to economists who have a specific interest in and knowledge of savings behaviour.

The resultant list of eight economists interviewed, is attached as Annexure 1. Although the sample size does not claim to be representative or statistically rigorous, the inclusion of economists with different backgrounds, cultural associations and professional engagements has assisted in generating varied responses covering a multitude of approaches to savings behaviour.

Data collection

The data collection process was undertaken through one-on-one depth interviews with eight South African economists.

The interviews were conducted on an exploratory and unstructured basis, in order to enable the participants to express their opinions without being limited or influenced by specific or leading questions (for example with reference to the categories of influencing factors encountered in savings literature or the opinions expressed by other economists). This approach also allowed the flexibility to follow lines of enquiry that proved promising.

The study therefore aimed to ascertain the unbiased subjective view of each of the participants with regard to their views in respect of two broadly phrased open-ended questions, namely:

- the factors which influence South African household savings behaviour; and
- the proposed actions to be taken to improve South African household savings behaviour.

The interviewer adopted an approach which sought to coax opinions from the interviewees without influencing the course of the discussion or raising specific issues for consideration. As such, the approach aimed to limit researcher bias and opinion from influencing the research outcome.

Data management

At the outset of the interview, interviewees were provided with a consent form which included a request for consent to the interview being recorded (with all participants bar the individual identified as Economist A consenting to the interview being recorded). The recordal of the interviews ensured that everything said could be preserved for analysis (Merriam, 1992) and that nuances not captured in written interview notes could be verified and incorporated subsequent to finalisation of the interviews.

Thereafter, interviews were transcribed and the opinions expressed were arranged according to the themes which developed during each discussion. The written recordal of each interview was provided to the relevant interviewee, with a request for corrections or additions as required, as well as for consent to the inclusion of the recordal in the research document. In addition (and with reference to the transcript provided), participants were requested to confirm whether their contribution could be identified.

All participants provided consent to inclusion of the recordal, and all participants bar the individual identified as Economist A provided consent to being identified.

Data analysis

Le Compte (2000) compares working with qualitative data to assembling a jigsaw puzzle, as a result thereof that qualitative data has no initial intrinsic organisational structure, with the result that the researcher is tasked with creating a structure and imposing it on the data. The author therefore proposes that the researcher should structure the data in order to make an initial assessment of the data set, whereafter the data should be sifted to reveal items relevant to the research, as indicated by factors such as frequency, omission and declaration. Le Compte then proposes that stable sets of items should be created (and that similar items should be grouped together), whereafter patterns should be identified. As a final step, it is proposed that groups of patterns should be assembled into structures which resemble an overall description of the problem being solved.

Patton in Marshall and Rossman (2006) states that the transformation of data into findings does not follow a defined formula, but requires guidance in the form of a coding frame that makes the analysis of the content more efficient and allows for meaningful data gathering.

Arising from the above, a systematic approach was used as follows:

- in the first instance, a coding frame was developed, based on the principal categories of savings determinants as observed in the savings literature;
- thereafter, an analysis was done of the themes which developed during the one-on-one interviews, with reference to the frequency with which ideas and concepts arose during the interviews;
- next, the data was coded according to the emerging pattern with regard to groups of responses (Zikmund, 2003); and
- finally, a model was compiled of emerging household savings themes, which was expanded to show the interrelationship between various determinants of saving behaviour.

<u>Data validity and reliability</u>

Bergman (2008) states that a good inference in qualitative research is expected to capture the meaning of the phenomenon under consideration, from the perspective of the participants to the study. Whether an inference is ‘good’, has been described variously with reference to:

- its authenticity, with regard to the capturing of the meanings of experiences or interactions (Druckman, 2005);
- its credibility, as evidenced by the fact that 'there is a correspondence between the way the respondents actually perceive social constructs and the way the researcher portrays their viewpoints (Mertens, 2005); and
- its transparency, which refers to the researcher's clarity of explanation regarding all stages of the study (Bryman, 2004).

It may be naïve to declare that any research is without some element of bias, as the researcher's bias may well be manifested in the subject chosen and the manner in which the research is performed. Whilst it may be impossible to eliminate bias, researcher bias can however be limited through an attentive approach aimed at reducing its impact.

The interviews were accordingly conducted with minimal interference or prompting from the researcher, and the researcher's own opinions were excluded from the responses recorded.

Through recognition of the potential impact of researcher bias on qualitative research and an attentive approach aimed at minimising such bias, the authenticity and credibility of the research has been enhanced, whilst a transparent approach has been followed with regard to the various stages of the study undertaken.

## 4.4 Research limitations

The following research limitations have been identified:

- The research was conducted with reference only to the opinion of South African economists with regard to South African savings behaviour. The research therefore does not include a consideration of the opinions of households or individual consumers with regard to the factors which influence their savings behaviour. As detailed earlier in this chapter, this approach has been followed as a result of the view that the heterogeneous nature of South African society would require extensive sampling across a range of sub-sectors of the South African population, in order to render a meaningful result (and that such an approach would fall outside of the scope of the research proposed).

- The researcher's opinions may have influenced the direction of certain interviews, whilst observer bias had the potential to influence the data interpretation.
- As highlighted by Le Compte (2000), qualitative data has no intrinsic structure or meaning, with the result that the researcher is tasked with creating an appropriate structure. Such structure may be influenced by the subjective considerations of the researcher, and may therefore be biased with reference to the researcher's opinions.
- The sample size is limited in that interviews were conducted with only eight experts; the inclusion of participants with differing backgrounds, cultural associations and professional engagements however assisted in generating varied responses covering a multitude of approaches to savings behaviour.
- The research outcome is highly dependant upon the quality of the information provided by the participants. Although the participants were interviewed in their capacity as experts, their opinions could be incorrect and the factual accuracy of all opinions expressed has not been verified.
- The outcome from non-probability judgmental sampling can not be assumed to be capable of generalisation to the entire population. As a

result, the research outcome provides an indication of the prevailing opinion among the group of economists interviewed, but may fail to provide an accurate reflection of the views of all South African economists or of the relative weight to be afforded to the various factors which could influence South African household savings behaviour.

# 5 Results

## 5.1 Introduction

This section details the various one-on-one discussions between the researcher and South African economists, during which the determinants of South African household savings behaviour and proposals for the improvement of the household savings rate, were explored.

Interviews are documented in the chronological order in which they were conducted.

## 5.2 Economist A

Position: Chief Economist of a major South African retail bank

*Three categories of potential South African savers*

In discussing saving behaviour, Economist A distinguished between three income-categorised sub-sectors within South African society, and postulated that the saving behaviour of each sub-sector could be explained at the hand of different factors, as follows:

(i) The low-income class

Economist A stated that approximately 60% of South Africa's population falls in the low-income category and that saving in this income group can be ascribed to a precautionary motive and the existence of a 'fear-base' as well as a culture of saving through informal mechanisms (such as stokvels).

However, Economist A cautioned that this class often relies on the redistributive policies of government and government spending on welfare payments and that, contrary to the position in China (where the population does not rely on assistance from government), South Africa is creating a system whereby government-dependency is encouraged, with the result that South Africans fall into a trap of over-consumption.

(ii) The middle and working class

Economist A noted that approximately 40% of the labour force forms part of the middle and working class category, who have an income (and could therefore, in theory, engage in saving behaviour). Economist A stated that, within the South African context, this category is tempted by 'enormous aspirations', which he blames on the modern market capital society which sets standards of living which are 'intense, influential, over-powering and non-negotiable'. This gives rise to what Economist A terms a 'sophisticated, highly consumption-orientated society', in which the mantra has become:

*'I earn therefore I spend' and 'I earn therefore I can leverage'.*

The tragedy is however that members of the middle and working class of potential savers often do not have the resources to meet what has been projected onto them, with the result that they can not live up to these aspirations and are therefore 'ridden bareback by the system'.

(iii) Upper middle class

Economist A described this category of potential savers as being *'kapitaal-kragtig'* (powerful through their access to capital), as they typically have an asset-base and derive income from shares, property and pension plans. According to Economist A, the result of such asset-base is however that individuals within this category hold the belief that they are warranted to spend their income, as a result of the buffer provided by, for example, dividend flows and rental income (and that their asset base therefore provides protection against expenditure as a result of future needs).

Culture of consumption

Economist A referred to the work of Thorstein Veblen (who introduced the term 'conspicuous consumption'), and stated that South Africa has become a consumer-driven capitalist society where consumption is pursued 'at any price' and in which people have yet to embrace the fact that consumer freedom comes with a requirement to act responsibly. He noted that consumption has taken the form of an 'addictive habit'. In this regard, Economist A referred to South Africans as 'super-Americans' and questioned how so many changes could have taken place within a single generation.

Role of credit: In contrasting South African saving behaviour with other developing economies, Economist A noted that many of these economies are not sophisticated, and access to credit may be limited as a result thereof that sophisticated financial instruments either do not exist or are not accessible to the broader population. In addition, the production side of these economies is often not geared to the needs of local consumers, and not many consumer goods are available for local consumption. The result of these factors, is that individuals have to save, in order to provide for themselves.

Economist A contrasted this position with the situation that arises once these economies develop and become more consumption orientated; where after the saving rate is anticipated to decline. In this regard, he referred to the 'Faustian bargain' that the developing world offer their labour to the producing developed world, in exchange for consumption of the goods so produced.

Economist A warned about the discrepancy between consumer spending (funded by income) and fixed investment (for which capital must be generated) and reiterates the fact that South Africa imports much more than it exports, with the result that, partly as a result of its choice to consumer rather than save, it finds itself in a current account deficit trap.

Economist A also stated that the rampant consumerism observed in South Africa can be laid at the door of a production-side push. With reference to economic theory on saving, he commented that ‘Keynes didn’t take into account producers’ ability to influence psychology’ and that the saving motives identified by Keynes has therefore been skewed by an artificial ‘need’ created through by a consumerism-orientated society.

<u>Cultural propensity to save</u>

In discussing cultural propensities to save, Economist A referred to the ‘different mentality’ observed in some East Asian economies. As an example, he relayed the story of two poor Japanese grandmothers who won a significant amount of money in a competition and, upon being asked what they planned to do with the money, responded that they would ‘just save it’. In a Western context, Economist A referred to the German nation, which exhibits a conservative approach to saving, notwithstanding their position as a first world country. In contrast, he referred to the ‘happy-go-lucky’ approach of South African consumers, but noted that white Afrikaners appear to represent a more ‘frugal subset’ of South African society.

This led Economist A to consider whether historical events may be a contributing factor to what we now view as a ‘cultural’ factor; perhaps the saving propensity of the Germans and Japanese can be relayed to a national conscience of the deprivation suffered during the Second World War and, in the case of Germany, the impact of hyper-inflation? Similarly, white Afrikaners' propensity to save may be relayed to the collective memory of hardships suffered during the Boer War.

The role of government

Economist A referred to a 'culture of dependency' in South African society which results in a lower saving rate, which dependency is evidenced not only in people's belief that the government will 'provide', but also that inexpensive goods will continue to be provided by the likes of China.

Economist A referred to South Africa as a 'redistributive society' and criticised such an approach, where it 'shackles the country' through being used as a mechanism to keep the poor satisfied. In this regard, he stated that the state should not award individuals for not planning properly.

Proposals with regard to improving the saving rate

On the question as to measures which the government should introduce to encourage saving, Economist A relayed the story of the Irishman who, upon being asked for directions, commencing with stating that 'I wouldn't start from here'. Economist A' point is that, in order to salvage the position with regard to household saving in South Africa, a very different starting point is required, as a conservative approach is currently wholly absent in our people. Economist A stated that there is already an ingrained culture of consumerism and dependency, which may prove difficult to change.

In this regard, Economist A noted that the practical solution to encourage savings needs to lie in the upbringing and education of individuals (and should therefore be instituted by parents from a young age).

Economist A also reiterated the role of continuing education about saving mechanisms, later in life. He however feels that this may be akin to 'Canute trying to hold back the ocean and failing'.

## 5.3 **Vince Musewe**

Position: Previous Deputy Chief Executive Officer of the Stokvel Company

The role of stokvels in saving behaviour

Musewe defined a stokvel as any group or collective that is serving a single purpose. He described stokvels as a cultural and affinity based phenomenon.

Musewe stated that stokvels were traditionally utilised as burial societies only (as this was the main cultural drive), but in the last five years, these burial societies have graduated to investment and saving clubs. Musewe reiterated that, notwithstanding the lower income profile of participants in the second economy, the estimated saving rate within the second economy is in the region of 20%. He also noted that the participants in stokvels range across LSM® categories 1 to 10 and incorporates both women and men.

Musewe however stated that the nature of saving by the second economy (including through mechanisms such as stokvels), typically takes the form of insurance against anticipated future consumption rather than saving for the purpose of investment and the accumulation of wealth. In this regard, he stated that burial societies represent approximately 50% - 60% of stokvel activities, with the bulk of the remaining activities being constituted of saving for food (especially for the Christmas period), group travel and education expenses. Therefore, stokvels remain predominantly geared towards the stimulation of consumption rather than investment. As a result, whilst saving as a percentage of disposable income may be high, such stokvel saving is often not utilised in a productive manner, but is channelled as consumption into the first economy. Musewe identified this as a 'fundamental challenge' to the mobilisation of saving for productive purposes.

Saving by poor South Africans

Musewe stated that poor South Africans do in fact save. In the stokvel environment, Musewe noted the interesting phenomenon that payments are often maintained by unemployed members. Musewe also referred to a recent study by the FinMark Trust, which states that the second economy saves R12 billion per annum (which money is typically retained in the banks) and an Old Mutual which placed this number much higher at approximately R30 billion. He however noted that, whilst money is available for saving, these funds are often channelled towards consumption.

Black South Africans: cultural issues

Musewe ascribed the fact that black South Africans do not save, to an 'emotional and cultural' issue. He noted his experience that finances is not a matter which is discussed openly in black households, and that the preparation of a budget and the sharing of financial information is not common, with the result that the members of these households are not sufficiently exposed to the workings of a household's finances, and do not gain experience with regard to the management of such finances.

Musewe also referred to the trend that, when the proprietor of a black-owned business dies, the business falters (with the result that black-owned businesses often do not survive beyond the first generation). Musewe noted that he attributes this trend in part to the fact that black South Africans are not 'inculcated to save' and to build wealth.

With regard to the impact of inter-generational linkages, Musewe stated that he does not believe that the system whereby parents rely on their children to provide for them later in life, continues to permeate black society. He therefore does not believe that black elders are not saving due to an expectation that they will be provided for by their children.

However, 'extended family issues' continue to be relevant to the extent that black family members are typically expected to look after other family members (for example where a death in the family results in a breadwinner no longer being able to support his family). In a situation where the 'have nots' have high expectations with regard to what such 'looking after' should entail, the additional responsibility placed on the 'haves' results in a significant negative impact on the monies available for saving.

Lack of voluntary saving

Musewe pointed to the fact that a significant portion of the population is governed by a trade union environment, with compulsory pension programmes. However, in contrast, a culture of voluntary savings does not appear to be instilled. An example hereof is the readiness with which provident funds are cashed out in order to facilitate consumption, when the opportunity arises.

Consumerism

Musewe referred to the 'tendency towards materialism' in the formal economy, and the notion that 'tomorrow will look after itself'. He also noted a study conducted by Standard Bank which found that the first economy spends about R125 million per annum, whereas the second economy (constituting approximately 70% of the total economy) spends roughly the same amount. As a result, there does appear to also be a 'fortune at the bottom of the pyramid'.

Musewe stated that the second economy is basically a consuming economy, which consumes goods and services from the first economy and provides labour to the first economy. The second economy is however only consuming and not accumulating wealth.

Musewe spoke about the influence of the 'success-factor', being not what are doing with your life, but what you own. Whereas savings may be driven by fear of tomorrow in certain economies (such as China), Musewe stated that the fear driving South Africans appears to be that they will loose the status associated with their consumer goods.

<u>Financial services industry</u>

With regard to the dichotomy between South Africa's well-developed financial services industry and its poor saving record, Musewe raised the points that:

- the financial services industry continues to be dominated by white males, whilst there are 'few black personal financial advisors and planners', and
- the products designed for the bottom end of the black market typically take the form of 'simple products', such as funeral or endowment policies, whereas there is a shortage of more sophisticated products designed for retirement.

As a result, Musewe stated his belief that the black consumer market is faced with insufficient access to financial products in general and, where access does exist, such access is often restricted to products which are 'inappropriate' with regard to the encouragement of saving and wealth creation.

Culture of dependence and entitlement

Musewe referred to a 'hand-out mentality' and states that a culture of entitlement (in which South Africans expect to be paid notwithstanding a limited economic contribution) 'appears to be a reality'. Musewe stated his belief that the South African socio-economic structure, if analysed from a historical perspective, has 'created an animal which is short-term, selfish and self-centred and which does not save and does not care about tomorrow'.

In this regard, Musewe referred to the Life Offices' Association's Insurance Gap Study released in the first quarter of 2008, which indicates that South Africans are under-insured by more than R10-trillion, which Musewe views as further pointing to a culture of dependency.

Musewe stated his belief that South Africa's saving issue is not only structural, but also psychological. There is hope for a better future, but this is accompanied by a feeling of 'chasing the big deal', with the result that people are reckless with their current financial position.

Education

Musewe also discussed the role of financial education, and his view that many South Africans have not been exposed to a culture of saving, with the result that they had not learned to save. In addition, he stated that many South Africans have not had sufficient exposure to financial concepts.

Macro-economic considerations

Musewe referred to the role of inflation targeting and other economic measures, and stated that, as far as the impact on the second economy is concerned, some of these measures can be likened to 'using the petrol gauge to measure whether you have enough oil'. He stated that one needs to develop alternative instruments that measure second economy issues, and these instruments must be institutionalised.

In this regard, Musewe found that people's experience of inflation in the second economy is very different from those in the first economy and a comparison can not easily be drawn between the impact of inflation targeting on these two sectors.

<u>Proposals with regard to improving the saving rate</u>

(a) <u>Education</u>: Musewe reiterated that the root of the saving problems experienced, is a lack of appropriate education. He therefore suggested that government should focus on improving this situation and stated that, in a system with a high level of education, the maintenance of a certain lifestyle becomes a matter or pride and responsible saving behaviour is a natural adjunct thereto.

    In the current circumstance, Musewe confirmed his belief that we should actively highlight the implications of not saving to the broader population, and stoke fear of the consequences of not saving.

(b) <u>Social structures</u>: Musewe stated that structures must be changed before a change in people's behaviour can be expected. In this regard, he proposed engaging employers to drive savings, and stated that he would formalise a 'Big Brother' approach, for compulsory savings for employed people.

(c) <u>Ease of access to assets</u>: Musewe reiterated that many people currently save for consumption, whereas saving should be re-directed to asset acquisition. Musewe however cautioned that access to assets must also be facilitated. In this regard, Musewe referred to the National Credit Act (NCA), which he believes has had a beneficial impact in that it has slowed consumer spending, but which may also give rise to anomalies (such as the fact that a limited outstanding balance at a retail store could result in bond approval being denied). The unintended consequence is that persons who are limited from accessing credit, often turn to loan sharks who advance credit at interest rates as high as 60%.

## 5.4 **Elias Masilela**

Position: Chief Strategist Financial Sector Developments, Sanlam; Chairman of the South African Savings Institute (SASI)

Saving as a function of income

Masilela stated that saving is a function of income, and a person's income level accordingly increases his marginal propensity to save (MPS). He however noted that the relationship between income and the MPS is not linear, and differs significantly between different individuals, depending on each individual's environment and circumstances.

In modelling saving, Masilela referred to the following formula:

$$S = a + bYd$$

where:

| | | | |
|---|---|---|---|
| where: | $S$ | = | saving |
| | $a$ | = | fixed intercept, indicating the lowest level of saving potential |
| | $b$ | = | fraction |
| | $Yd$ | = | disposable income (after tax). |

As a result, Masilela concluded that an individual could generate saving even in the absence of an income stream, such as would be the case where such individual receives a grant from government or an allowance from his/her parents.

As to the saving behaviour of the poor, Masilela stated that recent studies by both SASI and the FinMark Trust[2] have found that poor people do indeed save. He however noted that such saving often does not take the form of saving through traditional instruments (such as saving accounts, retirement policies and annuities). Instead, saving is channelled towards the procurement of items such as housing and education.

The definition of saving in the South African context

Masilela stated that the traditional economic definitions of saving are not always relevant within the South African context. As an example, he noted that classical theory defines education as an expenditure, which is regarded as consumption and is therefore relegated to recurrent spend. Masilela stated that this notion should change, as many societies around the world view education as a fundamental investment in ones future (including as a result of the belief that if you educate your children, they will look after you in your old age). As such, education can be regarded as an investment aimed at securing a source of future income.

Masilela also referred to similar considerations in respect of health and social security spend, and the fact that certain European governments are arguing that mothers should not be compelled to work, but should be provided with a grant which incentivises them to remain at home (the rationale being that a child which grows up under the close guidance of its mother, tends to be a better member of society). Masilela therefore views this as a social investment and not simply a consumption expenditure by the relevant government.

[2] Bester and Hendrie *et al*

With regard to the argument that there is no guaranteed return on this type of 'investment', Masilela stated that, as with any other investment (for example the stock market) there is no guarantee with regard to returns to be realised. Therefore, as with any other investment, he regards this as an investment which will attract unique risks, and which must be managed accordingly.

In this regard, Masilela also referred to the traditional view that saving is that portion of income which is not consumed within the period in which it is generated. He however questioned the current thinking in South African terms, of the distinction between a bond repayment (which is regarded as saving), the purchase of a spaza shop (which is defined as investment) and the payment of school fees (which is considered to be consumption), and questioned where one should draw the line.

Masilela stated that, although he does not believe that the current definition of saving is incorrect per se, he does believe that, within the South African context, the definition should be wider so as to incorporate elements of saving which are not otherwise recognised in classic economics.

<u>Emotive considerations</u>

Masilela referred to the structural changes in the economy which impact the manner in which people behave. For example, when the national economic outlook improves and people are upbeat about economic performance, households tend to consume more and save less, and visa versa.

<u>Cultural family structures</u>

With reference to black South African society, Masilela stated that the concept of a nucleus family is foreign to many black South Africans, whereas the extended family and the responsibilities arising therefrom, is viewed as a natural structure. As a result, black South Africans tend to see the members of their extended family as a source of ‘insurance’, as loans, donations or other assistance can be procured in times of need. In addition, the person extending such loan or donation views his contribution as a form of investment, as it ensures that he, in turn, can rely on the extended family should his hour of need arise.

However, this system provides little in the way of financial guarantees, as the ability of the extended family to assist other members is dependent upon their own financial position from time to time. In addition, Masilela stated that this system elevates consumption, as those individuals who would ordinarily earn enough to provide for themselves and save the remainder of their disposable income, is constrained from saving by their responsibility towards their extended family.

Masilela also stated that the high dependency ratios observed in the South African society is contributing to the low household savings rate. In this regard, Masilela referred to the South African HIV / AIDS epidemic (which has the greatest impact on the potentially economically active proportion of society) as well as the extended family obligation discussed previously. As a result, economically active persons or retirees progressively need to feed many mouths from a single income or pension, with the result that saving is diluted.

<u>Financial liberalisation and the role of credit</u>

Masilela confirmed that, although financial liberalisation has increased access to financial products, such access tends to be biased towards credit access rather than to access to saving and investment products. As a result, Masilela stated that South Africans are over-indebted and an increased portion of their income is utilised for the servicing of consumption rather than for saving and investment. In fact, the level of indebtedness has resulted in necessary consumption spending not being met by many households. Masilela accordingly stated that 'debt has pushed people into a poverty trap'.

With regard to the drawing of comparisons between South Africa and China, Masilela stated that South Africa has a 'financial market in the first world, and part of the real economy in the third world'. As a result, South Africa has had very deep financial sector development for quite some time, and Masilela therefore stated that it is difficult to draw a 'clean parallel' between South Africa and other developing economies.

Masilela also referred to the so-called 'Red October campaigns' conducted by the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) in the late 1990s, aimed at forcing the banking sector to increase access to credit for the poor and the working classes. Masilela stated that the South African government's Treasury Department intervened in 2002, and persuaded the organisers of the Red October campaigns that the working classes and the poor would be best assisted by not exposing them to debt, but rather by advocating the creation of long-term safe deposit vehicles. As a result, subsequent Red October campaigns moved the focus away from the credit and lending issue, to other issues such as food prices.

Masilela noted that the fact however remained that the working classes did not have adequate access to savings accounts, and that this situation eventually led to the creation of the uMzansi account, a banking industry initiative which is aimed specifically at lower-income clients, and which was originated by government in an attempt to increase saving. Masilela however admitted that, although 1 million uMzansi accounts were opened in the first year of the initiative (principally by people who had never before been exposed to banking), the initiative is not profitable and is therefore not advertised by the banking sector as much as is the case with other products. As a result, Masilela stated that he would not be surprised if the number of uMzansi accounts has regressed from its highest levels.

Masilela also referred to government's initiatives with regard to saving products, such as the retail bonds issued by the National Treasury, which he regards as a direct response to the deficient returns offered under traditional banking products. In this regard, Masilela stated that organised labour has been calling for the establishment of specific institutions to compete with commercial banks, and that retail bonds have been an attempt at providing savers with a real alternative.

Masilela stated that he is optimistic that retail banks can make a profit from the uMzansi account, provided that sufficient clients are secured and these clients are educated in making use of the products offered. Masilela therefore believes that initiatives such as the uMzansi account are a positive contribution to the process of motivating the unbanked market to enter the formal banking sector.

Materialism and consumerism

Masilela referred to South Africa's 'very robust and unsustainable consumer culture', which results in South Africans competing on materialistic commodities such as the cars we drive, the clothes we wear and the restaurants we go to. Masilela lamented the fact that consumers do not similarly compete on the size of their retirement annuities (RAs) and the returns enjoyed on investment. He also lamented the perpetuation of this pattern by corporations. As an example, he referred to company incentive schemes which award innovative employees with consumption vouchers.

Masilela questioned why such incentive programmes could not rather utilise RAs or other savings instruments as a reward?

Masilela also referred to the ‘savings barometer’ produced and published by SASI, which seeks to measure the changing savings environment in South Africa (rather than the actual savings) with reference to factors such as the level of household incomes, employment levels, interest rates, inflation and taxation. Masilela stated that a comparison of the findings of the savings barometer with the actual saving information released by the SARB, indicates that actual savings are decreasing notwithstanding that the savings environment has been improving, at least over the past 10 ten years. Masilela ascribes this disparity to the impact of consumerism and our constant ‘competition with the Joneses’, and the fact that windfalls experienced by households (such as reduced personal taxation) has been channelled toward consumption rather than saving.

Masilela relayed South Africa’s consumerism to the country’s political history and the ‘rigid class structures’ which it created. Masilela theorised that, as black people could not own property during the apartheid era, they needed something by which to define themselves and to make a statement thus partly explaining their ‘flashy lives’. The result has been an ingrained emphasis on the importance of material goods, which culture continues to prevail today. In contrast, Masilela stated that certain segments of South African society have had a history of exposure to relative wealth, with the result that the need to ‘flash it around’ is less prevalent.

<u>Proposals with regard to improving the saving rate</u>

<u>Employment</u>: With regard to proposals to be implemented in order to encourage saving, Masilela stated that employment creation is ‘the fundamental solution to this problem’. If employment does not grow, (i) the

availability of disposable income for saving does not grow, and (ii) the dependency ratio in the economy rises, as one employed person needs to feed more people from the same salary, with the result that the relevant household has less money available for saving. Masilela therefore stated that he ascribes the saving success of the East Asian economies as being rooted in their growth in employment.

Institutionalised savings: Masilela further stated that savings programmes should be institutionalised, as has also been the case in certain East Asian economies which have achieved savings success. Masilela expressed the view that a balance must be kept in mind when saving is institutionalised, but that a shift should be made from a 'carrot to a stick approach'. In this regard, Masilela referred to the Retirement Reform process supported by SASI and the Social Security and Retirement legislation being considered as a result, in terms whereof it is proposed that South Africans who earn more than a specific amount (currently envisaged to be in the region of R12 000 per annum) will be obliged to put money aside for retirement. Masilela stated that it is anticipated that the relevant legislation will only come into effect between 2013 and 2015.

Masilela acknowledged that, for earners on the lowest level of the threshold, the legislation may be a burden if their disposable income is not sufficient for necessary consumption. He therefore suggested an approach whereby a savings subsidy is also implemented for the poorer persons within the savings net, the amount of which should be inversely related to an individual's income level.

With regard to the potential negative impact of subsidies, where they dis-incentivise people from seeking employment, Masilela stated that he does not believe that this will be the outcome, as the amount is not sufficiently high to have such perverse effects.

The role of government grants: With regard to the potential negative impact of grants in creating a 'handout mentality', Masilela stated that he views subsidy programmes as a positive, as it enables individuals to make longer-term decisions due to the buffer provided. Therefore, grants enable people to make investment decisions, even if only on a limited basis.

## 5.5 Dawie Roodt

Position: Chief Economist of the Efficient Group (Proprietary) Limited

General

Roodt stated that issues such as culture, financial know-how and instruments that facilitate saving, are not at the core of why we do not save. Instead, Roodt referred to macro-economic considerations and the impact of policy instruments. He confirmed his belief that, as far as economic theory is concerned, 'the fundamentals always rule supreme'.

Interest rates

In the first instance, Roodt referred to the interaction between the saving rate and the interest rate, and that a higher interest rate leads to increased saving and visa versa. He stated that South Africa's interest rate is too low, and points to the regression analysis established with regard to changes in the saving rate and changes in the real interest rate (being the repo rate less inflation). In this regard, he noted that saving rates and real interest rate changes have historically correlated with each other, although the lag and lead times are not precise. He also noted that the extent of such lead and lag times differ for the pre-1994 and post-1994 period.

With regard to the impact of higher interest rates, Roodt referred to the trade-off which arises as a result thereof that debt is the antithesis of saving, and that both debt and saving is influenced by the affordability of money. Such affordability is in turn determined with reference to the cost of money (namely interest) as well as the existing levels of debt at the relevant time. As a result, the cost of money should be considered over the longer term, in order to arrive at a relevant result with regard to impact of interest rate changes.

Roodt noted that, at present, both the cost of nominal money as well as the household levels of debt is high, with the result that a low saving rate can be anticipated.

Policy instruments

Monetary versus fiscal tools: Roodt agrees that, whilst many economists believe that monetary policy instruments should be utilised to effect changes in the saving environment, he believes that the focus should also be on the utilisation of fiscal policy instruments.

Roodt referred to the role of a fiscal deficit, and the fact that such a deficit typically indicates an expansive fiscus, with resultant increased debt levels. In contrast, a fiscal surplus typically indicates that taxation collected by government is not expended.

With regard to developing economies, Roodt stated that opinions differ significantly with regard to the application of fiscal policy instruments. As an example, COSATU is urging the South African government to spend more, so as to fulfil South Africa’s socio-economic development needs. Roodt however stated that the question as to whether a specific fiscal policy has a contracting or expansive effect on the economy should not be seen as a snapshot, but rather as a video. Accordingly, Roodt views the assumption that a fiscal surplus per definition has a contracting effect, as incorrect. Instead, he stated that one needs to consider what has become of state income and expenditure. In addition, one then needs to make an assessment over time, of the resultant economic impact of such income and expenditure.

Taxation burden: With regard to the taxation burden, Roodt stated that over the last 10 to 15 years, the taxation burden has been moved from the low income earners onto the middle-income group (which Roodt defined as that sector of society which earns an annual salary of R100 000 or more) and the higher-income groups.

Roodt stated that such shifting of the taxation burden resulted in the poorer segment of society having more money at their disposal than would otherwise be the case, and such additional monies being channelled towards consumption. In addition, the taxation burden had been moved to the middle to higher income groups, being that segment of society which would typically have engaged in saving and whose PDI had now been reduced, with a resultant negative impact on household saving.

Government spending: Roodt stated that, since 2003, Finance Minister Trevor Manuel's government spending has included a focus on social spending, which includes close on 15 billion social grants (per the 2008 budget). This however has the impact that households grow complacent about saving, as the state is providing a 'safety net', with the result that households could query why they should save at all. This situation can therefore be compared with the position in China, where middle-income groups tend to save less than their rural counter-parts, who have less of a safety net.

Roodt stated that this complacency about saving is also fuelled by the fact that South Africans' life expectancy has decreased as a result of the impact of HIV / AIDS, with the result that South Africans have a significantly decreased concern about a future which may not come to pass.

Proposals with regard to improving the saving rate

Roodt stated that he is not in favour of legislated obligatory savings, although he noted that certain economies (such as Brazil) have utilised these types of instruments with success. In this regard, Roodt relayed the story that no individual can, in isolation, engage in the simple act of making a cup of coffee, due to the complex set of ingredients which form part of this simple drink. Rather, a cup of coffee is a product of the functioning of the free market pricing mechanisms. In contrast, a centrally controlled system does not work, as a result of the concomitant under- or over-allocation of resources arising from the information shortcomings.

In this regard, Roodt referred to a 'good tax system' as one which is neutral and does not incentivise tax-payers to implement less or more of a certain action. Roodt stated that, in contrast, a 'bad tax' with such incentivising impact, results in an over- or under-allocation or resources. As an example, he referred to the interest income threshold of R17 000 and the resultant re-allocation of income to other sources.

Roodt therefore stated that fiscal policy tools should not be used where it incentivises or dis-incentivises certain behaviour, because this has the impact of skewing the allocation of resources. Roodt concluded that he believes that, from a fiscal policy perspective, the solution may lie in:

- the reduction of personal and corporates taxes, in order that more disposable income will become available for saving; and
- tax breaks for saving behaviour.

## 5.6 **Rudolf Gouws**

Position: Chief Economist of Rand Merchant Bank

Personal income taxation

With reference to the relationship between personal income taxes and household income, Gouws stated that the ratio of taxation to household income rose between the early 1980s and approximately 1995, and that an inverse correlation can be observed between an increasing personal tax burden and the household saving rate.

Inflation and interest rates

Gouws stated that the South African personal taxation rate to household income started to decline after 1995. However, saving rates continued to decline, as circumstances were favourable for higher consumer spending, financed by personal debt. He noted that, all other things being equal, a rise in the use of debt is tantamount to a fall in savings.

Gouws noted that this period was characterised by low inflation, low interest rates and a boom in asset prices. In addition, many black consumers, who had obtained collateral for the first time, became keen borrowers. As a result, households in a sense 'geared up' on the tax windfall which they enjoyed, and did not 'save' it.

Gouws explained that the relationships can be stated as follows:

From the national accounts:

$$PDI - HCS = S$$

| | | | |
|---|---|---|---|
| where: | PDI | = | personal disposable income |
| | HCS | = | household consumption spending |
| | S | = | saving, |

and, from the national financial accounts:

> change in household financial assets less change in household financial liabilities = saving.

During 2007, the formulas rendered a result of approximately R7 billion in the national accounts.

With a decreasing personal tax burden and the resultant tax windfall, households elected to accrue financial assets, but did so through the raising of leverage. Access to credit combined with an environment of rising asset prices, resulted in an illusion of wealth being created.

In these circumstances, households placed a greater emphasis on their balance sheet position than on their cashflow position. A simple calculation of the difference between the market value of a property and the outstanding bond payment, brought households to the conclusion that they had accumulated wealth and therefore had money available for consumption or to underpin the taking on of further debt.

The outcome of the above is that households saved less, consumed more and, perhaps of most concern, incurred significant debt burdens to boot.

<u>The role of shadow taxes</u>

Gouws also pointed towards the impact of 'shadow taxes', brought about by the socio-economic and structural factors at play in South African society. In this regard, he mentioned the spending of after-tax income on, for instance, (i) home security (including alarm systems and armed response services), (ii) additional schooling for children, where poor government schooling is failing, private hospitals (as a result of the poor state of government hospitals) and the like. The result of this additional expenditure (which

Gouws argues can be regarded as constituting a form of taxation), is that households have less income to spend on other consumption, or that households prefer to maintain a given level of other types of spending, and that saving is impacted negatively.

Psychology and history

Gouws indicated that some psychological factors as well as the impact of historic events may also be at play in explaining South African saving behaviour. In comparing South Africa with China, he stated that Chinese households exhibit concern about the future, as hardly any safety net is provided by the government (with the result that households save as much as possible). Many South Africans tend to hold the belief that ‘someone will look out for us’ (with the result that saving is impacted negatively).

Proposals with regard to improving the saving rate

Gouws felt that government should not attempt to fulfil the role of a ‘Big Brother’ with regard to saving behaviour. He states that government’s limited initiatives in this regard (for example government’s retail bonds) have not been a great success at the macro level, and that government should rather focus on its core functions of improving the education system, policing and the criminal justice system. In addition, Gouws stated that the personal income tax burden should be lessened further and that government should address the issue of shadow-taxes and consider mechanisms which recognise these expenditures as taxation.

## 5.7 **Lumkile Mondi**

Position: Chief Economist of the Industrial Development Corporation

Inequality in society and a growing culture of consumerism

Mondi stated that the saving issue is rooted in the inequality prevalent through-out South Africa's past. He clarified that such statement should not be interpreted as a reference to racial inequality. In this regard, Mondi stated that Johannesburg's history has long been about power and money, and from the time when gold was discovered (and industrial development became centred around this precious metal), a divide became apparent between the elite and the rest. With the institution of race-based policies in 1948, this divide also crystallised as a racial divide.

Mondi stated that the result of this history is that we have an aspirational society, which desires to live according to the perceived lifestyle of the 'haves'. Mondi voiced his belief that such aspirations are however not only South African in their nature; our people also appear to aspire to a European and American lifestyle. Combined with the fact that South Africa has a large working class, the result has been a growing culture of consumerism focussed on brand and class. Mondi stated that this culture of aspirational consumerism is so deep-rooted that it leads to graver consequences than reduced saving, including that people resort to corrupt measures to attain their aspirations.

Mondi also stated that the affirmative action and black economic empowerment (BEE) policies which have been introduced by the South African government, contribute to the perpetuation of negative behaviour motivated by consumerism and greed.

Mondi noted that, in societies with significant inequalities, low saving rates can often be found. In answer to a question as to the rationale for China's high saving rate in the face of societal inequalities, Mondi states that although China is rooted in inequality, the Chinese people have a history of hardships (including as a result of the communist regime, invasions by Japan, natural disasters and the like), with the result that a culture of prudency has developed.

Similarly, Mondi remarked that white South Africans had adopted a 'survivalist mentality' as a result of the Anglo-Boer War, the depression and the 'swart gevaar' (black danger) during the political upheavals of the 1970s to 1990s.

As to the rationale for the low saving by black South Africans (who have also been exposed to significant hardships), Mondi ascribed this to the fact that black people exhibit a 'willingness to assimilate' and have therefore (since the abolishment of apartheid legislation), assimilated with other racial groups on an economic and social level. Such assimilation has resulted in the past being left to the past and the assimilated culture becoming the only reality. In a way, such assimilation has therefore resulted in the loss of a class identity and a sense of community (and, with it, a loss of the awareness of past hardships and the lessons to be learnt therefrom).

With regard to South Africa as a nation, Mondi noted that a distinction between the saving behaviour of different racial groups is no longer appropriate, as the whole nation appears to be in the grip of a tide of rampant consumerism.

Financial system and availability of credit

Mondi stated that, although the South African financial system is highly efficient and sophisticated (and this should theoretically encourage saving), such efficiency and sophistication also gives rise to increased access to cheaper credit. Furthermore, South Africa's producers and service providers engage in targeted marketing whereby consumers are bombarded with opportunities not only to spend his money, but to do so on a credit basis.

Lack of financial education at home

Mondi noted that a lack of adequate financial education from a young age, lies at the root of the savings problem. He stated that South Africans not only do not engage in educating their children about money, but also actively reinforce negative behaviour by 'buying off' their children with expensive toys and treats as a substitute for quality time and attention.

Mondi also mentioned the fact that, on a national level, South Africans do not appear to have a unified 'father figure' without a political agenda, whom they can regard as a source of guidance and advice.

Proposals with regard to improving the saving rate

Mondi stated that 'the future looks very bleak for household savings' and that this is not a matter which can easily be rectified through government intervention, save that Mondi proposed that policies which perpetuate negative behaviour and a culture of greed and consumerism, should be discouraged. In this regard, Mondi stated that South African business should, with government, rather focus on policies which foster an entrepreneurial and small-business environment.

Mondi further stated that the creation of employment opportunities is a core matter to be addressed; not only because a working person has less time to focus on other people's consumption habits, but also because employment serves to teach individuals valuable lessons about credit and responsible cash management.

With regard to forced savings schemes, Mondi stated that these initiatives have proven to be very unpopular, and that he believes they could be open to constitutional challenges. In addition, he stated that government is not effective with regard to managing savings on behalf of individuals, and that solutions to the savings debate should therefore not be sought in government savings interventions.

5.8 **Dr Azar Jammine**

Position: Chief Economist of Econometrix

An English phenomenon?

Jammine remarked that South Africa seems to have its low saving rate in common with a number of English-speaking economies, including the United Kingdom, United States and Australia. The build-up of a household debt burden also seems to be a common denominator in these economies. Jammine furthermore contrasted the fact that debt appears to have acquired a positive image in these jurisdictions, with the more negative debt association observed in certain European and Asian economies.

In this regard, Jammine remarked that, from a young age, he had been taught that one builds up equity through leverage (and that debt therefore plays a positive role in wealth creation). He also noted that whilst affluent white communities had, in the 1980s and 1990s, geared their balance sheets (and was subsequently ‘burned’ in the 1998 market downturn), the same gearing up could be observed in black communities since 1993.

The role of financial institutions

Jammine observed that the debt phenomenon experienced in many English-speaking economies could be a factor of the capital and financial deepening experienced in these economies, in terms whereof financial markets have become well-developed and financial institutions are therefore increasingly encouraging households to assume debt.

Culture of Americanism

Jammine stated that another factor which is at play, is South Africans' copying of American culture, and the consumerism and borrowing arising therefrom.

Large current account deficit

Jammine commented on the fact that low saving rates are often characteristic of countries with a large current account deficit. Jammine noted that such deficit is often observed when countries have an advanced services industry in which the available capital inflows are used for imports (as opposed to the position in a producing nation, where capital inflows are generated through the products provided, and lesser capital outflows are experienced as a result of the import of goods).

Hand-out mentality

In comparing South African saving behaviour with that observed in China, Jammine commented that South Africa's poorer classes are becoming dependent on hand-outs, which leads them to question why savings are required at all.

Casino and lotto industry

Jammine further raised the issue of the prevalence of casinos and lotto games in South African society, and the resultant cultivation of the notion that one can 'get rich quick' (as opposed to engaging in a gradual process of hard work to ensure financial stability). Jammine cautioned that we are inculcating the wrong attitude in our people and noted that the creation of instant millionaires within the BEE environment could be argued to have the same impact.

The role of HIV and AIDS

Jammine stated that, particularly within the black population, the prevalence of HIV and AIDS and the resultant high mortality rates and decreasing life expectancy, has resulted in people questioning 'why they should bother saving'.

Proposals with regard to improving the saving rate

Jammine stated that the first solution lies in the education of our people, in order that the economy can be grown.

Further, Jammine commented on the potential role to be played by taxation. He noted that, at present, the incentive to earn interest is very small (as interest income above a very low threshold of R19 000 per annum, is subject to taxation). Jammine therefore proposed that taxation mechanisms should be utilised, which increases the tax thresholds before income on saving is taxed, and which increases the tax efficiency of saving.

Jammine concluded that he would focus on government to change matters, and that he believes that there is merit in a system which forces individuals and households to save.

## 5.9 **Dr Elna Moolman**

Position: Group Economist of Barnard Jacobs Mellet

Income and state support

Moolman asserted that household saving is principally a function of (a) what you are able to spend (with reference to your income) and (b) what you are obliged to save (with reference to the extent to which a savings net is provided by employers or the government).

With regard to the former, Moolman confirmed her belief that the poorer segments of South African society simply do not have sufficient income at hand to save. With regard to the latter, Moolman referred to the position in China, where state pensions are not provided and, for example, very few people belong to medical aid, and the population according needs to save to provide for retirement.

Cultural differences

Moolman further stated that cultural elements also play a role in savings behaviour, and that different cultures have a different savings propensity, much as different cultures have a different work ethic. Moolman also referred to the impact of the cultural approach to family ties observed in black South African communities, whereby older generations look toward younger generations to provide for their material needs later in life.

Historical 'asset deficit'

Moolman referred to the fact that there may be an 'asset deficit' among many previously disadvantaged South Africans that now for the first time own assets such as cars and houses. The result has been a desire to accumulate assets post 1993; lamentably, this has however often manifested itself in the acquisition of consumable goods rather than investment property.

Rise in asset prices

Moolman referred to the significant rise in asset prices which have been observed in South Africa over the last few years, with the result that households have fostered the belief that they do not need to save (as increased asset values had ostensibly resulted in wealth creation).

Comparison of saving between jurisdictions

Moolman questioned the extent to which South African household saving rates are comparable to other countries' saving rates, and whether our low saving rate is not potentially understated.

In this regard, she mentioned that the national accounts include 'imputed rent' (namely the rental cost that would have been associated with a property, had such property been rented rather than owned). Moolman believes that the inclusion of 'imputed rent' as a consumption in the saving calculation (whereas the owned house which forms the basis of the imputed rent calculation is in fact an investment and therefore to be equated with saving), may skew the reported household saving rate by as much as 5%.

Proposals with regard to improving the saving rate

Moolman stated that the principal solution to South Africa's deficient household saving rate, is economic growth coupled with the generation of employment opportunities and eventually, an increase in household income.

Moolman further stated that she believes that the taxation regime could be used to incentivise saving; in this regard, she mentioned the possibility of increasing the threshold before taxation is levied on interest earned. She also questioned whether capital gains tax should be applied as widely as is currently the case, and whether fiscal incentives and concessions could not also be incorporated in this area, to incentivise savings behaviour.

Moolman concluded by stating that she was optimistic that the current financial crisis will eventually result in South African households adopting a more conservative approach to saving.

# 6 Discussion of results

## 6.1 Introduction

An extensive body of literature has been compiled in respect of savings behaviour. Notwithstanding the foundation provided by this research, the determinants of savings behaviour in a particular geography or jurisdiction may diverge significantly from the outcome anticipated from the theoretical considerations. In addition, and as a result of the interaction between local considerations, much of the empirical research in respect of savings behaviour focuses on specific sub-sets of potential savers.

A limited number of studies have been performed in respect of the savings behaviour of South Africans. The process of obtaining empirical results in this regard, however, is complicated by the multitude of economic and cultural sub-sets within South African society, and the resultant need to consider not only the potential determinants of saving, but also the impact of different sets of determinants on different segments of society.

A quantitative analysis of the various determinants of savings behaviour and the interaction between the determinants, fell beyond the scope of this research. Instead, the research focussed on ascertaining the expert opinions of a group of South African economists, in order to gauge their subjective views of:

- the factors which influence South African household savings behaviour; and
- the proposed actions to be taken in order to improve household savings rates,

in an attempt to establish a savings model for South Africa, based upon the experts' experiential observations rather than theoretical suppositions.

## 6.2 Research question one: Creation of a structure and coding frame

Le Compte (2000) compares working with qualitative data to assembling a jigsaw puzzle, due thereto that the qualitative data has no initial intrinsic organisational structure and that the researcher is therefore tasked with creating a structure and imposing it on the data. As a result, Le Compte proposes that the qualitative data should be structured and sifted to reveal relevant items, whereafter patterns should be identified and groups of patterns should be assembled into structures.

Coding frame

In order to structure and organise the qualitative data gathered, a coding frame was developed, as proposed by Patton, in Marshall and Rossman (2006). Such coding frame was based on the principal categories of savings determinants, as observed in the savings literature.

**Table 6.1: Basic results coding frame**

| DETERMINANTS OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Demographic characteristics** | | | | | | | | |
| Income | | | | | | | | |
| Age | | | | | | | | |
| Family structure and intergenerational links | | | | | | | | |
| Gender | | | | | | | | |
| Education | | | | | | | | |
| Culture | | | | | | | | |
| Language | | | | | | | | |
| **Macro-economic indicators** | | | | | | | | |
| Interest rate | | | | | | | | |
| Inflation rate | | | | | | | | |
| Growth rate | | | | | | | | |
| **Consumer behaviour** | | | | | | | | |
| Consumption | | | | | | | | |
| Asset-driven behaviour | | | | | | | | |
| Debt | | | | | | | | |
| **Structural impacts** | | | | | | | | |
| Pension and provident funds, insurance | | | | | | | | |
| Economic and financial market development | | | | | | | | |
| Taxation system | | | | | | | | |
| Legislation | | | | | | | | |
| Redistributive / welfare policies | | | | | | | | |

Sub-themes: Arising from the above, the themes which developed during the one-on-one interviews were identified and arranged as sub-sections to the principal categories detailed in Table 6.1, as follows:

**Table 6.2: Expanded results coding frame, including sub-themes**

| DETERMINANTS OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Demographic characteristics** | | | | | | | | |
| **Income** | | | | | | | | |
| Current income | | | | | | | | |
| Expectation of future income | | | | | | | | |
| **Age** | | | | | | | | |
| Dependency ratio | | | | | | | | |
| **Family structure and intergenerational links** | | | | | | | | |
| Reliance by older generations on younger | | | | | | | | |
| Extended family responsibilities | | | | | | | | |
| **Gender** | | | | | | | | |
| **Education** | | | | | | | | |
| Lack of home education | | | | | | | | |
| Deficient formal schooling | | | | | | | | |
| **Culture** | | | | | | | | |
| Race / ethnicity | | | | | | | | |
| Difference between South African races | | | | | | | | |
| Black South Africans | | | | | | | | |
| White South Africans | | | | | | | | |
| **Language** | | | | | | | | |
| English-speaking countries | | | | | | | | |
| **Macro-economic indicators** | | | | | | | | |
| **Interest rate** | | | | | | | | |
| High interest rates | | | | | | | | |
| Low interest rates | | | | | | | | |
| **Inflation rate** | | | | | | | | |
| High inflation rates | | | | | | | | |
| Low inflation rates | | | | | | | | |
| **Growth rate** | | | | | | | | |
| **Consumer behaviour** | | | | | | | | |
| **Consumption** | | | | | | | | |
| General over-consumption | | | | | | | | |
| Conspicuous consumption | | | | | | | | |
| **Asset-driven behaviour** | | | | | | | | |
| Wealth effect | | | | | | | | |
| Asset value / cashflow mismatch | | | | | | | | |
| **Debt** | | | | | | | | |
| Willingness to incur debt | | | | | | | | |
| Existing levels of debt | | | | | | | | |
| **Structural impacts** | | | | | | | | |
| **Pension and provident funds, insurance** | | | | | | | | |
| Lack of black financial advisors | | | | | | | | |
| Dearth of simple funeral / endowment | | | | | | | | |
| Lack of sophisticated retirement products for | | | | | | | | |
| Lack of accessibility | | | | | | | | |
| **Economic and financial market development** | | | | | | | | |
| High level of development | | | | | | | | |
| Lack of formal savings instruments | | | | | | | | |
| Availability of informal savings instruments | | | | | | | | |
| Availability of debt instruments | | | | | | | | |
| Service-focussed economy | | | | | | | | |
| **Taxation system** | | | | | | | | |
| High personal tax rates | | | | | | | | |
| Low personal tax rates | | | | | | | | |
| Impact of shadow-taxes | | | | | | | | |
| **Legislation** | | | | | | | | |
| National Credit Act | | | | | | | | |
| **Redistributive / welfare policies** | | | | | | | | |
| Government's redistributive policies | | | | | | | | |
| Governmental welfare payments | | | | | | | | |
| Subsidies | | | | | | | | |

Miscellaneous considerations: A category was added as detailed in Table 6.3 for additional considerations mentioned in the course of the one-on-one interviews, which were not considered in the savings literature and did not resort under the other main categories of determinants.

**Table 6.3: Expanded results coding frame: miscellaneous category**

| DETERMINANTS OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Miscellaneous** | | | | | | | | |
| **"Created cultures"** | | | | | | | | |
| Aspirational culture / culture of materialism | | | | | | | | |
| Culture of dependency / "hand-out mentality" | | | | | | | | |
| Culture of entitlement / "get rich quick" | | | | | | | | |
| Culture of consumption | | | | | | | | |
| Short-term outlook | | | | | | | | |
| Lack of a voluntary savings culture | | | | | | | | |
| **Casino / lottery industry** | | | | | | | | |
| Casino / lottery industry | | | | | | | | |
| **Producer behaviour** | | | | | | | | |
| Availability of goods | | | | | | | | |
| Production-side push | | | | | | | | |
| **Role of historic events** | | | | | | | | |
| Inequality | | | | | | | | |
| Apartheid (General population) | | | | | | | | |
| Apartheid (Black population) | | | | | | | | |
| Boer wars (white Afrikaans population) | | | | | | | | |
| **HIV / AIDS** | | | | | | | | |
| Impact of HIV / AIDS | | | | | | | | |
| **Relevance of traditional savings definitions** | | | | | | | | |
| Impact of macro-economic indicators | | | | | | | | |
| Definiton of saving versus consumption | | | | | | | | |
| Inclusion of imputed rental in calculation | | | | | | | | |

Coding of data

A coding system was devised in terms whereof different colours were utilised to code each savings determinant or theme mentioned by the relevant participants.

**Table 6.4: Key to research question one results coding frame**

| | |
|---|---|
| | considered to have a positive impact on household savings |
| | considered to have a negative impact on household savings |
| | existence acknowledged; considered to have a neutral impact on household savings |
| | existence denied |

Population of results coding frame

The results coding frame was populated with reference to each participant's response, in accordance with the coding system in Table 6.4, as follows:

**Table 6.5: Detailed research question one results coding frame**

| DETERMINANTS OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Demographic characteristics** | | | | | | | | |
| **Income** | | | | | | | | |
| Current income | | | | | | | | |
| Expectation of future income | | | definition | | | | | |
| **Age** | | | | | | | | |
| Dependency ratio | | | | | | | | |
| **Family structure and intergenerational links** | | | | | | | | |
| Reliance by older generations on younger | | | | | | | | |
| Extended family responsibilities | | | | | | | | |
| **Gender** | | | | | | | | |
| **Education** | | | | | | | | |
| Lack of home education | | | | | | | | |
| Deficient formal schooling | | | | | | | | |
| **Culture** | | | | | | | | |
| Race / ethnicity | | | | | | | | |
| Difference between South African races | | | | | | | | |
| Black South Africans | | | | | | | | |
| White South Africans | | | | | | historically | | |
| **Language** | | | | | | | | |
| English-speaking countries | | | | | | | | |
| **Macro-economic indicators** | | | | | | | | |
| **Interest rate** | | | | | | | | |
| High interest rates | | | | | | | | |
| Low interest rates | | | | | | | | |
| **Inflation rate** | | | | | | | | |
| High inflation rates | | | | | | | | |
| Low inflation rates | | | | | | | | |
| **Growth rate** | | | | | | | | |
| **Consumer behaviour** | | | | | | | | |
| **Consumption** | | | | | | | | |
| General over-consumption | | | | | | | | |
| Conspicuous consumption | | | | | | | | |
| **Asset-driven behaviour** | | | | | | | | |
| Wealth effect | | | | | | | | |
| Asset value / cashflow mismatch | | | | | | | | |
| **Debt** | | | | | | | | |
| Willingness to incur debt | | | | | | | | |
| Existing levels of debt | | | | | | | | |
| **Structural impacts** | | | | | | | | |
| **Pension and provident funds, insurance** | | | | | | | | |
| Lack of black financial advisors | | | | | | | | |
| Dearth of simple funeral / endowment policies | | | | | | | | |
| Lack of sophisticated retirement products for black market | | | | | | | | |
| Lack of accessibility | | | | | | | | |
| **Economic and financial market development** | | | | | | | | |
| High level of development | | | | | | | | |
| Lack of formal savings instruments | | | | | | | | |
| Availability of informal savings instruments (stokvels) | | | | | | | | |
| Availability of debt instruments | | | | | | | | |
| Service-focussed economy | | | | | | | | |
| **Taxation system** | | | | | | | | |
| High personal tax rates | | | | Middle income | | | | |
| Low personal tax rates | | | | Low income | Post 1993... | | | |
| Impact of shadow-taxes | | | | | | | | |
| **Legislation** | | | | | | | | |
| National Credit Act | | | | | | | | |
| **Redistributive / welfare policies** | | | | | | | | |
| Governmental redistributive policies | | | | | | | | |
| Governmental welfare payments | | | | | | | | |
| Subsidies | | | | | | | | |

| DETERMINANTS OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Miscellaneous** | | | | | | | | |
| **"Created cultures"** | | | | | | | | |
| Aspirational culture / culture of materialism | | | | | | | | |
| Culture of dependency / "hand-out mentality" | | | | | | | | |
| Culture of entitlement / "get rich quick" | | | | | | | | |
| Culture of consumption | | | | | | | | |
| Short-term outlook | | | | | | | | |
| Lack of a voluntary savings culture | | | | | | | | |
| **Casino / lottery industry** | | | | | | | | |
| Casino / lottery industry | | | | | | | | |
| **Producer behaviour** | | | | | | | | |
| Availability of goods | | | | | | | | |
| Production-side push | | | | | | | | |
| **Role of historic events** | | | | | | | | |
| Inequality | | | | | | | | |
| Apartheid (General population) | | | | | | | | |
| Apartheid (Black population) | | | | | | | | |
| Boer wars (White Afrikaans population) | | | | | | | | |
| **HIV / AIDS** | | | | | | | | |
| Impact of HIV / AIDS | | | | | | | | |
| **Relevance of traditional savings definitions** | | | | | | | | |
| Impact of macro-economic indicators | | | | | | | | |
| Definiton of saving versus consumption | | | | | | | | |
| Inclusion of imputed rental in calculation | | | | | | | | |

Tabulation of frequency of responses

Finally, the number of responses per category and sub-theme were compiled in respect of each of the colour-coded response options, as detailed in Table 6.6.

**Table 6.6: Response frequency**

| FREQUENCY ANALYSIS | | | | | TOTAL | % |
|---|---|---|---|---|---|---|
| Demographic characteristics | 3 | 18 | 8 | 1 | 30 | 18% |
| Macro-economic indicators | 1 | 3 | 2 | 0 | 6 | 3% |
| Consumer behaviour | 0 | 18 | 0 | 0 | 18 | 18% |
| Structural impacts | 7 | 25 | 0 | 0 | 32 | 26% |
| Miscellaneous | 0 | 34 | 0 | 0 | 34 | 35% |
| TOTAL | 11 | 98 | 10 | 1 | 120 | 100% |

## 6.3 Research question one: analysis of results

Introduction

Three observations bear consideration at the outset:

- in the first instance, as anticipated, the vast majority of the responses focussed on those factors which are considered to have a negative (red) impact on South African household savings behaviour;

- second, when considering the spread of the negative factor responses, two thirds of the responses related to the four main categories of savings determinants as identified in the savings literature, whereas a third of the responses attributed the low South African household savings rates to what has been termed miscellaneous considerations (being matters not considered in the savings literature which do not resort under the other main categories of determinants);
- third, a very limited number of responses considered the potential positive or negative impact of macro-economic indicators such as the interest rate, inflation rate and economic growth rate.

The role of income

Economic theory with regard to savings behaviour is typically referenced to the work of Keynes (1937 in Modigliani, 1986, 298) in the form of the AIH as well as the LCH devised by Modigliani (1954) and Friedman's PIH (1957). These three hypotheses afford a pivotal role to income as a determinant of saving, on the basis that:

- in terms of the AIH, the average household's propensity to save increases as the household reaches a higher income level;
- in terms of the LCH, individuals make rational choices and plan their consumption and saving behaviour over their lifetimes (Muradoglu and Taskin, 1996), thereby emphasising the role of long-term income over the life cycle of the individual; and
- in terms of the PIH, long-term income is regarded as the main determinant of household consumption (Strydom, 2007), but rational consumption and savings decisions are modelled under the assumption that life is 'indefinitely long' (Modigliani, 1986, 299).

Given these considerations combined with the popular argument that South Africa's low savings ratio can simply be ascribed to its large poor population, it was surprising that only one participant regarded current income (as predicted by the AIH) as a negative determinant of household savings behaviour.

<u>The application of the LCH</u>: However, a number of factors point to the influence of the LCH on South African savings behaviour, through the interaction between South Africans' expectation of future income and their expectation as to the duration of their lives.

<u>Sources of future income</u>: Within the South African context, it appears that future income is anticipated to be derived from sources other than the toil of the relevant individual (and the definition of income has therefore been broadened for purposes of the application of the LCH). Further detail in this regard, is set out in Table 6.7). It is interesting to note that all participants noted at least one of the tabled factors as having a negative impact on current household savings behaviour.

**<u>Table 6.7</u>: Anticipated sources of future income**

| ANTICIPATED SOURCES OF FUTURE INCOME | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| Reliance by older generations on younger | | | | | | | | |
| Availability of debt instruments | | | | | | | | |
| Governmental redistributive policies | | | | | | | | |
| Governmental welfare payments | | | | | | | | |
| Subsidies | | | | | | | | |
| Culture of entitlement / "get rich quick" | | | | | | | | |
| Casino / lottery industry | | | | | | | | |

<u>Anticipated duration of life</u>: As to the second factor, namely South Africans' expectation as to the duration of their lives, a number of participants noted potential negative determinants, as detailed in Table 6.8.

**Table 6.8: Anticipated duration of life**

| ANTICIPATION OF LIFE DURATION | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| Short-term outlook | | | | | | | | |
| Impact of HIV / AIDS | | | | | | | | |

The underlying assumption of the LCH is that individuals will accumulate savings during their earning years in order to maintain consumption levels during retirement (Muradoglu and Taskin, 1996). In keeping with the premise on which the LCH is based, it however appears that the combination of the factors in Tables 6.7 and 6.8 result in South Africans increasing their current spending as a result of the belief that future income is forthcoming, and that their life-cycle expectation may be reduced by factors such as HIV/AIDS.

Other demographic considerations

With regard to other demographic considerations, the analysis renders a result which is in line with the anticipated outcome from the savings literature, including that:

- the high South African dependency ratio (namely the share of the population under the age of 15 or over the age of 65) has a negative impact on household savings (Muradoglu and Taskin, 1996; Prinsloo, 2000); and
- the extended family responsibilities observed in developing economies (whereby a single income earner has the responsibility to look after the broader family in times of need), impacts household savings negatively.

The role of culture

Ogden, Ogden and Schau (2004) assert that culture (which can be represented by race or ethnicity) will impact one's preferences and, as a result, could impact financial preferences. Although a number of participants noted the potential impact of culture as a demographic variable, there appears to be a divergence of views with regard to whether certain South African racial groups tend to save more than others. The role of historic events in shaping racial tendencies to save more or less was afforded both a positive and a negative role, dependent on the impact of the relevant historical event on a specific racial group. As such, it was intimated that cultural differences in savings behaviour is attributable to a lesser degree to racial tendencies, and to a greater degree to the impact of racially-based historical events.

Furthermore, most participants mentioned the role of a ‘culture’ which expands on the traditional definition of culture as a demographic variable. Included in this category of what has been termed ‘created cultures’, are the aspirational culture, culture of dependency and culture of consumption observed in South African society. These cultures are typically regarded as a national phenomenon, as opposed to being attributed to certain cultural groupings only.

**<u>Table 6.9</u>: The role of culture in South African household savings**

| THE ROLE OF CULTURE IN HOUSEHOLD SAVINGS | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Demographic culture / language factors** | | | | | | | | |
| Race / ethnicity | | | | | | | | |
| Difference between South African races | | | | | | | | |
| Black South Africans | | | | | | | | |
| White South Africans | | | | | | historically | | |
| English-speaking countries | | | | | | | | |
| **Role of historic events** | | | | | | | | |
| Inequality | | | | | | | | |
| Apartheid (General population) | | | | | | | | |
| Apartheid (Black population) | | | | | | | | |
| Boer wars (White Afrikaans population) | | | | | | | | |
| **"Created cultures"** | | | | | | | | |
| Aspirational culture / culture of materialism | | | | | | | | |
| Culture of dependency / "hand-out mentality" | | | | | | | | |
| Culture of entitlement / "get rich quick" | | | | | | | | |
| Culture of consumption | | | | | | | | |
| Short-term outlook | | | | | | | | |
| Lack of a voluntary savings culture | | | | | | | | |

Macro-economic indicators

It is noticeable that very few respondents emphasised the role of macro-economic indicators as a determinant of savings behaviour in South Africa, as detailed in Table 6.10.

**Table 6.10: Macro-economic impacts on South African household savings**

| THE ROLE OF MACRO-ECONOMIC INDICATORS IN HOUSEHOLD SAVINGS | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Interest rate** | | | | | | | | |
| High interest rates | | | | | | | | |
| Low interest rates | | | | | | | | |
| **Inflation rate** | | | | | | | | |
| High inflation rates | | | | | | | | |
| Low inflation rates | | | | | | | | |
| **Growth rate** | | | | | | | | |
| **Impact on consumer behaviour** | | | | | | | | |
| Wealth effect | | | | | | | | |
| Asset value / cashflow mismatch | | | | | | | | |

Muradoglu and Taskin (1996) state that a number of studies have confirmed that there is no definite relationship between real return and savings rates in developing economies, and that the presence of well-developed and functional financial markets and higher household income levels make savings responsive to changes in the real returns of the economy (which factors typically are absent in developing economies).

A number of participants however noted the impact of macro-economic factors on consumer behaviour as a result of the so-called wealth effect, namely that a fall in interest rates raises the value of housing, equity and bonds, which rise in asset values accelerates consumer spending (McAleese, 2004).

Giovannini (1985, 215) states that, in the case of developing countries, 'assumptions about elasticity of substitution may not be realistic because a significant fraction of the population may not be able to borrow, even at black market rates'. In a similar vein, a number of participants expressed concern with regard to the appropriateness of applying first-world determinants in a developing economy context. In this regard, Musewe likened the impact of inflation targeting on the second economy, to ‘using the petrol gauge to measure whether you have enough oil’, and stated that one needs to develop alternative institutional instruments to measure second economy issues.

Consumer behaviour

The negative impact of South African consumer behaviour on household savings rates was emphasised by each of the participants. In this regard, the majority of interviewees focussed on the negative impact of consumption (and specifically conspicuous consumption), whilst a number of individuals noted the impact of asset-driven behaviour (such as the wealth effect) and the fact that South Africans have a willingness to incur and maintain high levels of debt.

The wealth effect has been ascribed to the rise in asset prices experienced over the last two decade (as discussed by Prinsloo, 2002). As a result, a number of participants anticipated a slow-down in consumerism and a potential positive impact on savings within a more slowly growing economy. The negative impact of the South African culture of materialism and consumption on savings behaviour was also noted by a majority of participants.

**Table 6.11: The impact of consumer behaviour on South African household savings**

| CONSUMER BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Consumption** | | | | | | | | |
| General over-consumption | ■ | ■ | ■ | | ■ | ■ | ■ | |
| Conspicuous consumption | ■ | ■ | ■ | | | ■ | | |
| **Asset-driven behaviour** | | | | | | | | |
| Wealth effect | | | | | ■ | | | ■ |
| Asset value / cashflow mismatch | ■ | | | | ■ | | | |
| **Debt** | | | | | | | | |
| Willingness to incur debt | ■ | | | | ■ | | ■ | |
| Existing levels of debt | | | | ■ | | | | |
| **"Created cultures"** | | | | | | | | |
| Aspirational culture / culture of materialism | ■ | ■ | ■ | | | ■ | ■ | |
| Culture of consumption | ■ | ■ | | | | ■ | ■ | |

As a category of savings determinants, South African consumer behaviour was afforded a high level of relevance by the experts interviewed.

Structural impacts

Participants noted a wide variety of structural impacts which have a potentially negative impact on savings behaviour. Over the course of the interview process, numerous sub-themes developed with regard to the role of structural impacts. As a result, this category of potential savings determinants represents approximately 25% of all determinants discussed.

As can be seen from Table 6.12, the results however do not show consistency with regard to the role of any one structural consideration, save that a majority of participants commented on the negative impact of:

- the high level of access to debt in the South African consumer market; and
- government's redistributive policies (including legislated redistribution through measures such as black economic empowerment legislation) and government's system of welfare payments.

**Table 6.12: Structural impacts on South African household savings**

| STRUCTURAL IMPACTS | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Pension and provident funds, insurance** | | | | | | | | |
| Lack of black financial advisors | | | | | | | | |
| Dearth of simple funeral / endowment policies | | | | | | | | |
| Lack of sophisticated retirement products for black market | | | | | | | | |
| Lack of accessibility | | | | | | | | |
| **Economic and financial market development** | | | | | | | | |
| High level of development | | | | | | In theory | | |
| Lack of formal savings instruments | | | | | | | | |
| Availability of informal savings instruments (stokvels) | | | | | | | | |
| Availability of debt instruments | | | | | | | | |
| Service-focussed economy | | | | | | | | |
| **Taxation system** | | | | | | | | |
| High personal tax rates | | | | Middle income | | | | |
| Low personal tax rates | | | | Low income | Post 1993... | | | |
| Impact of shadow-taxes | | | | | | | | |
| **Legislation** | | | | | | | | |
| National Credit Act | | | | | | | | |
| **Redistributive / welfare policies** | | | | | | | | |
| Governmental redistributive policies | | | | | | | | |
| Governmental welfare payments | | | | | | | | |
| Subsidies | | | | | | | | |

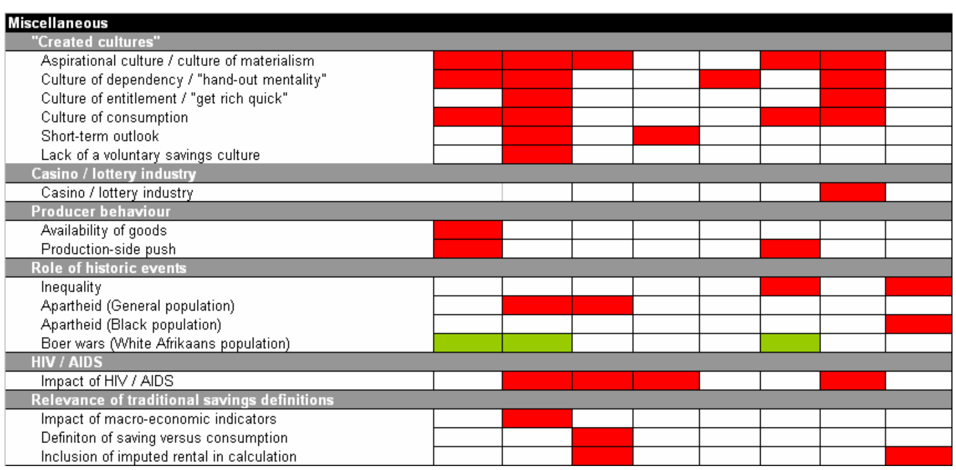
Financial sophistication: Muradoglu and Taskin (1996, 149) find that 'the establishment of new and more sophisticated financial markets and adaptation of new instruments are crucial in increasing savings rates in developing countries'.

This view, however, was refuted by a number of interviewees, who regarded the sophisticated nature of South Africa's financial markets coupled with the availability of debt instruments, as a significant contributor to low household savings rates. This accords with the view of Prinsloo (2002, 74), who refers to the impact of 'major financial policy and institutional changes, including the liberalisation of financial markets during the 1980s', which 'created many new lending opportunities for the financial sector' and states that 'generally speaking, an inverse relationship can be expected between increases in the utilisation of consumer credit and the saving of private households over time'.

Miscellaneous determinants

In addition to the customary determinants of household savings as discussed above, a number of miscellaneous determinants have an impact within the context of South African household savings behaviour, as detailed in Table 6.13.

**Table 6.13: Miscellaneous determinants of South African household savings behaviour**



In this regard, it appears that South Africans have adopted certain 'created cultures' which influence consumptive behaviour. Other South Africa-specific factors discussed, include the potential negative impact of South Africa's well-developed casino and lottery industry and the encouragement of consumerism by service providers and manufacturers. Finally, the issue as to whether traditional savings definitions are appropriate in the South African context was mentioned by a number of participants.

## 6.4 Research question two: creation of a response structure

A simple framework was compiled in terms whereof responses were grouped and coded, as detailed in Table 6.14 and Table 6.15.

**Table 6.14: Key to research question two results coding frame**

| | |
|---|---|
| | suggested approach |
| | approach not suggested |

**Table 6.15: Detailed research question two results coding frame**

| PROPOSALS FOR THE IMPROVEMENT OF SAVINGS BEHAVIOUR | Economist A | Vince Musewe | Elias Masilela | Dawie Roodt | Rudolf Gouws | Lumkile Mondi | Dr Azar Jammine | Elna Moolman |
|---|---|---|---|---|---|---|---|---|
| **Education** | | | | | | | | |
| Youth education: parents | | | | | | | | |
| Youth education: state | | | | | | | | |
| Adult education | | | | | | | | |
| **Savings schemes** | | | | | | | | |
| Compulsory / institutionalised savings schemes | | | | | | | | |
| Savings subsidy for low-income earners | | | | | | | | |
| **Investments** | | | | | | | | |
| Access to investment assets | | | | | | | | |
| **Fiscal tools** | | | | | | | | |
| Reduction of personal income taxes | | | | | | | | |
| Fiscal incentives for savings behaviour | | | | | | | | |
| Reduction in capital gains tax and narrowing of application | | | | | | | | |
| Shadow-taxes recognise as taxes | | | | | | | | |
| **Economic and employment growth** | | | | | | | | |
| Governmental initiatives to stimulate growth and employment | | | | | | | | |
| Foster small-business and entrepreneurial environment | | | | | | | | |

## 6.5 Research question two: analysis of results

In discussing the proposals to be implemented in order to improve South Africa's household savings rate, a significant majority of interviewees referred to the fact that households in other developing countries (such as China) have a limited 'safety net', with the result that savings are encouraged by a 'precautionary motive' (Browning and Lusardi, 1996).

The existence of governmental redistribution and welfare programmes has also been noted as a negative determinant of household savings in South Africa, as a result of the perception that households need not concern themselves with unforeseen financial difficulties, as the state will provide the necessary security.

However, in as far as measures to improve the South African household savings rate are concerned, participants did not propose that existing welfare distributions should be reduced, as a result of the view that the potential negative impact of such distributions may be outweighed by the socio-economic benefits to be attained.

With regard to the actions to be taken to improve the South African household savings ratio, the participants proffered proposals in respect of five areas of possible improvement, namely education, compulsory savings schemes, creation of access to investments, the utilisation of fiscal tools and the stimulation of economic and employment growth, as detailed in Table 6.15.

A number of participants identified the education of the South African population with regard to appropriate savings behaviour, as a priority. The use of fiscal tools (including a reduction in personal income taxation and the introduction of taxation incentives to encourage savings behaviour) was also supported by a number of participants.

A contentious issue arose in the form of whether compulsory savings schemes should be instituted. A number of individuals felt that such a system would have a positive impact. However, an equal number of participants felt that the government should not assume the role of a 'big brother' with regard to household savings behaviour, and should rather focus on, for example, initiatives which stimulate growth and development.

## 6.6 Summary of results

This section summarises the results which arose from the interview process.

| Research question one: |
|---|
| What are the main determinants of the South African household savings rate, in the view of selected South African economists? |

South African economists have divergent views with regard to the determinants of local household savings rates. However, a number of themes can be noted, as follows:

- the theoretical determinants of savings behaviour as discussed in the savings literature play a role in explaining South African household savings behaviour;
- certain of these theoretical determinants however find application to a lesser extent in an emerging market environment; in particular, the impact of macro-economic indicators on household savings rates for the broader South African population, is the subject of debate;
- most economists interviewed do not regard current income as the primary determinant of savings behaviour. Instead, the role of South Africans' expectation of future income from various sources (including government grants) coupled with the expectation of a reduced life span (as a result of, for example, the impact of HIV/AIDS), is emphasised as a contributor to South Africans' short term financial outlook;

- although a number of participants noted the potential impact of culture as a demographic variable, there appears to be a divergence of views with regard to whether certain South African racial groups tend to save more than others, and the role of historic events in shaping savings behaviour was emphasised in preference to arguments favouring the impact of race or culture in isolation;
- most participants mentioned the role of a ‘created culture’, which expands on the traditional definition of culture as a demographic variable and includes the negative impact of South Africans’ aspirational culture, culture of dependency and culture of consumption;
- the negative impact of South African consumer behaviour and excessive consumption on household savings rates was emphasised by all participants. As a category of savings determinants, South African consumer behaviour was therefore afforded a high level of relevance by the experts interviewed; and
- although numerous structural impacts appear to impact household savings behaviour, a majority of participants commented on the negative impact of South Africans’ access to debt and government’s redistributive policies (including legislated redistribution through measures such as black economic empowerment legislation) and a system of welfare payments.

<u>Research question two</u>:

Which actions should be taken to improve the South African household savings rate, in the view of selected South African economists?

The proposals with regard to actions to be taken to improve South Africa's household savings rate, entail:

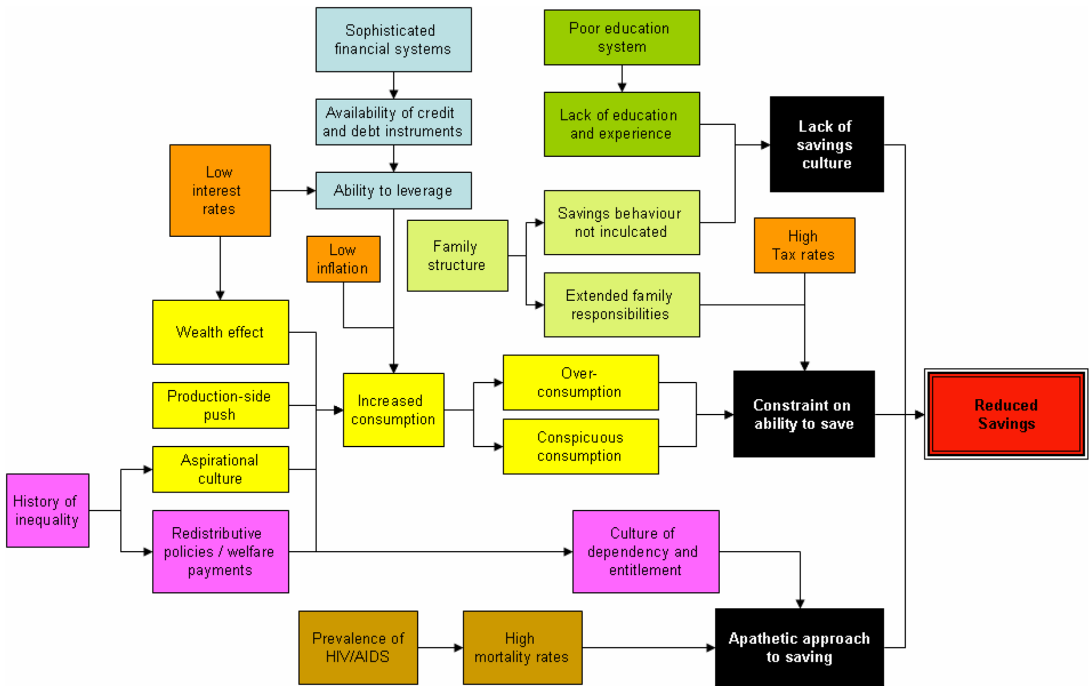
- improvement of the education system, and the encouragement of savings education within individual households;
- the introduction of compulsory savings schemes (although it should be noted that a number of participants expressed a view that such a system was not desirable and that the government should not attempt to police individual savings behaviour);
- the use of fiscal tools in order to incentivise and encourage savings behaviour, including through a reduction in personal income taxes and the introduction of tax incentives to encourage the use of savings instruments; and
- fostering a climate within which economic growth and the creation of employment is encouraged.

## 6.7 Compilation of a savings model

Arising from the various interviews, a model was compiled of the perceived association between various determinants of South African household savings behaviour, as detailed in Figure 6.1.

The model indicates different threads of determinants (for example in respect of consumer behaviour) in different colours, and demonstrates how the prevalence of a particular factor leads to further negative savings outcomes.

**<u>Figure 6.1</u>: Association between determinants of South African household savings behaviour**




An analysis of the associations between the various determinants of savings behaviour as discussed during the interview process, leads to the conclusion that:

- a multitude of factors influence South African household savings behaviour;
- these factors lead to three outcomes, namely a so-called lack of a savings culture, constraints on the ability of households to save (including as a result of rampant consumerism) and, perhaps of most concern, an apathetic approach to savings; and
- the combination of the aforementioned outcomes leads to the low savings profile observed in respect of South African households.

# 7 Conclusion

The importance of savings

Domestic savings, which is constituted of saving by government, the corporate sector and households, plays an important role as an economic shield against financial turbulence and as a critical ingredient for a country's economic growth.

The World Competitiveness Report (2008) ranked South Africa 102nd out of 134 countries in respect of its national savings rate. South Africa's low national savings rate results in increased exposure to and dependence upon international capital inflows. This situation is reflected in South Africa's high current account deficit and consequent reliance on running a capital account surplus to fill the domestic savings gap. During the latter part of 2008, such economic exposure was evidenced in the sharp depreciation of the Rand, when international financial turbulence resulted in a capital flight from emerging markets.

Of additional concern, is the fact that household savings represents only 10% of national savings, and that the household savings rate (as a percentage of household disposable income) has been declining in recent years to the point where the SARB (2008b) notes that households, since 2006, have been in a dis-saving position.

This state of affairs has additional negative implications at the level of individual households, particularly as a lack of savings results in households not having a protection mechanism against the vagaries of economic changes. The lack of a buffer is particularly pertinent in a developing economy such as South Africa, where governmental protections and social welfare nets are often limited or absent.

A consideration of the determinants of South African household savings provides an opportunity to identify and examine the factors which contribute to

South Africa’s low household savings, and to propose actions which can be taken to improve savings ratios.

The determinants of household saving

The theory base in respect of household savings proposes that savings behaviour is impacted by a range of factors. To complicate matters it is held that these factors may impact upon each other and also may find application in an inconsistent and unpredictable manner, dependent on the economic environment being studied.

The heterogeneous nature of South African society contributes to the difficulty in identifying the relevant savings determinants from the savings literature, as a multitude of different demographic inputs need to be considered.

In principle, however, the savings literature distinguishes between four major categories of savings determinants. These categories are demographic characteristics (including age, gender and income), macro-economic indicators (including interest- and inflation rates), consumer behaviour and structural impacts (including the role of pension fund legislation and the sophistication of a jurisdiction’s financial and taxation systems).

The research method

The quantitative analysis of each of these variables within the South African household savings environment, fell outside of the scope and extent of the research. Instead, one-on-one interviews were conducted with a group of South African economists, in order to gauge their expert opinions and gain insight into their subjective experience with regard to the factors which impact household savings behaviour.

The research results

The results indicate that a multitude of factors are at play in explaining South African household savings behaviour, and that the declining household savings rate can not simply be ascribed to low current income levels and South Africa's large poor population, as predicted by the theoretical point of departure advocated by Keynes (1937 in Modigliani, 1986, 298), Modigliani (1954) and Friedman (1957). Instead, South African household savings appear to be negatively impacted by South Africans' expectation of future income, through a combination of a positivistic expectation of a future income stream and a reduced expectation with regard to the anticipated duration of an individual's life (with the result that South Africans have a short-term outlook with regard to financial planning). Furthermore, the experts interviewed have divergent views with regard to the role and importance to be afforded to each of the determinants, with certain participants placing an emphasis on the role of macro-economic factors, whereas others deny the potential impact of such factors within a developing economy context.

With regard to the determinants of savings as discussed in the savings literature, the South African economists as a group afforded most weight to the negative impact of generally consumptive behaviour and conspicuous consumption in particular, combined with the fact that South Africa's sophisticated financial system acts as an enabler for access to credit facilities, and the redistributive policies of the South African government combined with the system of welfare payments (which was argued to have contributed to a culture of dependency and entitlement).

In addition hereto, the experts noted the existence of a number of factors not otherwise encountered in traditional savings literature, including:

- the negative impact of what has been described as an aspirational culture rooted in materialism, as well as the culture of dependency and entitlement;
- the negative impact of HIV/AIDS on the life expectancy of individuals, with the result that households assume a short-term approach to financial planning; and
- the continuing impact of South Africa's history of inequality with regard to income and race, in that inequalities of the past have shaped the culture of consumerism and dependence which impacts negatively on savings behaviour.

A number of economists questioned whether the definitions of savings as applied in first world economies, are appropriate to the South African household savings environment (and whether a comparative study between the savings behaviour of developed and developing economies is therefore capable of rendering relevant results).

In this regard, it is notable that a limited number of the interviewees afforded weight to the impact of macro-economic indicators. Rather, these indicators were felt to be more appropriate to developed economies than to developing economies such as South Africa.

<u>Proposals with regard to improving household savings</u>

Given empirical evidence of the low South African household savings rates and the critical role played by savings in advancing economic development and fostering social welfare, the interview participants proposed that, in order to improve South African household savings:

- the education system should be improved, and the cultivation of a savings culture within individual households should be encouraged;

- compulsory savings schemes should be introduced (although it is noted that a number of participants expressed a view that such a system is not desirable and that the government should not attempt to police individual savings behaviour);
- fiscal tools should be utilised in order to incentivise and encourage savings behaviour, including through a reduction in personal income taxes and the introduction of tax incentives to encourage the use of savings instruments; and
- the government should foster a climate within which economic growth and the creation of employment is encouraged.

In order to implement these proposals in a manner which may contribute to improving household savings rates, it is proposed that these policies should be investigated in further detail and practical implementation proposals advanced, particularly given that the ease with which these policies can be pursued within the framework of existing government structures, is unclear. It is however clear that, if the low household savings rate is to be addressed, an understanding of these proposals as well as the practical steps to be taken to implement them, is vital to the success of any future policies.

Proposed future research

The research focuses on the views of experts with regard to the factors which influence South African household saving.

With regard to future research in respect of South African household savings behaviour, it is proposed that an analysis could be performed with regard to:

- the determinants of household savings behaviour within specific demographic sub-sets of South African society (for example with reference to individuals within certain income or cultural groups); and

- whether the macro-economic indicators traditionally associated with savings behaviour are relevant to South Africa's developmental economic environment. It is proposed that such research could take the form of a quantitative analysis of the correlation between fluctuations in the interest rate, inflation rate and growth rate, and changes in the household savings rate, and could distinguish between the impact of these macro-economic indicators on different demographic segments of South African society.

In conclusion, it is noted that South African household savings behaviour constitutes a complex and dynamic field of study, in respect of which expert commentators have divergent opinions. As such, the study of South African household savings constitutes fertile ground for the generation of discussion and the formulation of proposals in respect of the advancement of South Africa's developing economy.

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## APPENDIX A – ECONOMISTS INTERVIEWED

| Economist | Position | Consent to inclusion of interview transcript | Consent to use of participant's identifying details |
|---|---|---|---|
| **Economist A** | Chief Economist of a major South African retail bank | Yes | No |
| **Vince Musewe** | Previous deputy CEO of the Stokvel Company (Pty) Ltd (which promotes investment and savings instruments designed for Stokvels) | Yes | Yes |
| **Elias Masilela** | Senior Economist at Sanlam, chairman of the Savings Institute of South Africa | Yes | Yes |
| **Dawie Roodt** | Chief Economist of the Efficient Group | Yes | Yes |
| **Lumkile Mondi** | Chief Economist of the Industrial Development Corporation | Yes | Yes |
| **Rudolf Gouws** | Senior Economist: Rand Merchant Bank | Yes | Yes |
| **Dr Azar Jammine** | Senior Economist: Econometrix | Yes | Yes |
| **Dr Elna Moolman** | Group Economist: Barnard Jacobs Mellett | Yes | Yes |