

UNIVERSITY OF KWAZULU-NATAL

Measures to improve household savings in South Africa

By: Warren Darley

Student Number: 209511397

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Supervisor: Dr. Mihalis Chasomeris

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DECLARATION

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ABSTRACT

The level of savings in South Africa has been described as dismal and on the verge of becoming an economic crisis. Household savings has declined to a level of dissaving and is therefore in need of rectification. Savings can be broken down into household, corporate and government saving. The purpose of this research is to identify measures to improve household savings in South Africa. A critical review of household savings is conducted in chapter two utilising secondary data to examine household savings, identify factors affecting savings as well as establish measures to improve household savings. The study gathers primary data from 10 leading economists and financial experts located in South Africa. A qualitative study is undertaken as it helps provide intrinsic information on the thoughts and opinions of the sample group on measures to improve household savings. The research has revealed that South African households are not saving sufficiently and that there are a few key factors affecting households savings. The key factors are identified and investigated in the literature review and further examined by the respondents for their expert opinions. The respondents have identified that household savings behaviours are insufficiently contributing to savings and there is a lack of a savings culture to encourage positive savings growth. Consumers are caught up in a web of consumerism with easy access to credit as a result of financial liberalisation. These two factors have created a debt trend and left many households in a downward spiral of debt. The respondents have identified the main factors affecting households as: savings culture, financial literacy, consumerism, income levels, education and interest rates. Measures identified to improve household savings are: Tax breaks, government incentives to saving, education, budgeting as well as developing a national culture of saving. These suggestions help outline a path for government, corporations and individuals to follow in achieving greater household savings. The research has outlined measures to improve household savings and stressed that there is no one single measure to rectify the savings dilemma, but rather it is to identify and acknowledge that the savings solution lies in addressing each of the factors affecting saving with a view to improving saving as a whole.

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GLOSSARY OF TERMS

AIH	Absolute Income Hypothesis
APS	Average Propensity to Save
ASCA	Accumulated Saving and Credit Association
ASISA	Association of Savings and Investments of South Africa
CEO	Chief Executive Officer
CFP	Certified Financial Planner
GDP	Gross Domestic Product
GEPF	Government Employment Pension Fund
GNDI	Gross National Disposable Income
GNS	Gross National Savings
HDI	Household Disposable Income
LCH	Life Cycle Hypothesis
LSM	Living Standards Measure
MPC	Marginal Propensity to Save
NERSA	National Energy Regulator of South Africa
NCA	National Credit Act
NGP	New Growth Path
OECD	Organisation for Economic Co-operational Development
PIH	Permanent Income Hypothesis
ROCSA	Rotating Saving and Credit Association
SA	South Africa
SADC	South African Development Community
SARB	South African Reserve Bank
SASI	South African Savings Institute
SEB	Sanlam Employee Benefits
UKZN	University of KwaZulu-Natal

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

The purpose of this chapter is to introduce the research topic, provide a background to the subject and research problem and address the list of objectives that it aims to achieve. The literature review aims to identify what literature is available on the matter and asks if this study can build and improve upon the current measures in place. National savings is vital to a country as a whole as savings provide for economic security and the ability to stimulate growth. Prinsloo (2000: 1) defines national saving as: "the amount of resources or income produced in a given year, that is not immediately consumed but rather put to use in a way that would provide economic returns in years to come." It can be said that the greater the savings rate of a nation, the better standard of living its residents enjoy. South Africa (SA) has not escaped the global economic crisis and this has exposed SA to rising unemployment, poverty and debt. South Africa's household debt as a portion of disposable income is at 80% whilst household savings sits at -0.4% (SASI, 2010). The recent recessionary effects are still lingering as the economy struggles to recover. This issue has raised the subject of savings in the national economy, or more importantly, the lack of savings.

1.2 PROBLEM STATEMENT OF THE STUDY

SA is currently experiencing a national savings crisis and Minister in the Presidency, Trevor Manuel, belaboured the fact that South Africans are not saving enough. Manuel said that the low rate of household savings means people have to borrow money at emergency rates. This has created a culture of indebtedness with many struggling within a debt trap, "We're spending money we haven't yet earned and we're spending it on goods we don't need" (Manuel, 2011).

South Africans have one of the worst savings rates in the world, and save only R1,50 for every R100 earned, when compared with China who save an equivalent R38 and India who save R34,50. "Poor savings translate into lower levels of investment, which impacts on economic growth, employment and personal income," (van Zyl, 2010: 1).

The subject of a savings crisis has been clearly identified in South African households. This is highlighted by Masilela (2010) who found that government and corporate were saving, however individual South Africans were not. Masilela identifies this trend as escalating and supports this with evidence of the declining household saving rate of -0,4% in 2010 (SASI, 2010). Masilela believes that the fundamental reason for the savings differential between households and Government and the Corporate sector lies with consumer behaviour. There are insufficient measures in place to encourage saving and SA needs to adopt a savings culture in order to avoid a savings crisis. South Africa lacks a culture of saving, and significant intervention is needed in order to create a savings change. Manyama (2007: 2) highlights the saving dilemma as merely a symptom of a bigger problem.

The aim of this study is to address the symptoms and causes of South Africa's poor savings behavior with a view to identifying the corresponding factors and identify measures to improve household savings. Carrol and Weil (1993: 135 - 145) identify a strong positive relationship between saving and growth and the researcher therefore believes that a household savings recovery will spark the overall recovery and growth of the South African economy.

1.3 MOTIVATION FOR THE STUDY

There is a dire need to improve SA's savings rate, whilst simultaneously reducing the levels of debt amongst households. Fewer than 6% of the population will retire with relative financial independence and the current downward spiral of increased consumption, raised borrowing and insufficient

savings contributions means this figure is likely to fall (Greenblo, 2011: 18). There is a lack of a savings culture in South Africa and there is a need for a paradigm shift in individuals' mentality towards savings. This shift will require lifestyle changes, budget rethinks and goal recalibration in order to align household finances with that of income. Current consumption and lending are too easily within reach and household budgets are not allowing for savings contributions.

In order to do so, households will need to acquire new skills and motivations and this will involve becoming financially literate and educating themselves on the subject of saving. Saving is a long-term plan and is best achieved when it is built up over time. Jackson (2010: 8) calls for government to make savings obligatory with savings legislation to help arrest the decline. The aim of this study is to examine household saving, the factors affecting saving and what measures can be taken to positively change savings for the future. In order to achieve this, the researcher has conducted research with leading economists on the matter to provide expert insight into the subject matter with a view to providing a unique contribution to household savings.

1.4 OBJECTIVES AND METHODOLOGY

The focus of this study is concentrated on identifying measures to improve household savings in South Africa. The study has been designed to examine household savings and identify factors affecting the savings with a view to establishing measures to improve them. The following objectives have been identified as steps to achieving the goals of the research:

- Examine household savings in South Africa.
- Identify factors affecting household savings in South Africa.
- Interview leading South African economists to gain insight on their perceptions of household savings.
- Evaluate differences between current savings measures and those identified in the interview.

- Identify measures to improve household savings.

In order to achieve the objectives of the study, the following questions were designed and used in the questionnaire.

- What are the main factors affecting household saving in South Africa?
- Why are South African households not saving enough?
- What measures should be taken to positively influence household savings?
- What role can Government play in improving household savings?
- What role can Corporates/Private sector play in improving household saving?
- What can individuals do to improve their household saving?

The objectives of the study have been met through a combination of the literature review and research questionnaire conducted on ten leading experts in the field of finance and economics. Through the literature research, the leading experts have emerged as a result of their contributions to the field of saving and economic finances and their insight and contributions have been utilized to help further the study. The qualitative and quantitative research responses were analysed and interpreted in chapter four with a discussion on the findings in chapter five. Recommendations and conclusions to the research findings can be found in chapter six.

1.5 LIMITATIONS OF THE STUDY

A key limitation of this study has been the size of the sample respondents. The researcher has opted to question leading industry experts with a view to obtaining expert opinion on the subject matter. A full-scale research proposal aimed at a sample of the population is limited by time and resources and is therefore not possible within the resources available to the researcher. A further limitation of the study is that the factors affecting household savings are vast

and that addressing measures to improve savings does not necessarily solve the problem. The savings dilemma has arisen as a result of a number of factors working both in conjunction or alone to negatively affect household savings. Whilst measures to improve saving are identified within this study, there are no guarantees of their efficacy.

1.6 OVERVIEW AND SUMMARY

Chapter one provides a framework for the study and presents an introduction and overview of the savings dilemma where the aim and objectives are laid out to help achieve the researchers goals. The study investigates the subject of savings with a view to establishing measures to improve household savings in South Africa. The research methodology employed makes use of a qualitative and quantitative study in designing a questionnaire for ten leading South African economists and financial experts. Utilising the feedback the researcher aims to conclude realistic measures to improving savings through the unique contributions obtained in the questionnaires. Chapter two focuses on a review of the literature, with chapter three investigating the research methodology. Chapter four presents the questionnaires data with chapter five providing a discussion of the results. Chapter six concludes with conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter seeks to present a literature review on the subject of household savings in SA. Chapter two aims to provide a context to the topic: “Measures to improve household savings in SA,” and in so doing, seeks to identify measures to improving household savings. To achieve the outcome desired by the dissertation’s topic line it is necessary to identify the various aspects of savings, and factors affecting household savings and utilise this together with the literature review to help establish measures to improve household savings.

This chapter therefore provides, an introduction and definition of savings before examining trends in household saving and reasons for low savings culture in SA. The savings behaviour of South African households are examined. The importance of saving and theoretical savings models are discussed. Several factors affecting saving are discussed as well as measures to improve household savings.

2.2 DEFINITION OF SAVINGS

Saving and the concepts of saving have a multitude of meanings and it is therefore necessary to identify the various savings parameters and outlines and their resulting meanings. The business dictionary (2010: online) defines savings as “The portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.” Savings can be divided into three main categories, government, corporate and household saving.

A definition of saving provides a background to the various savings terms, which could be better described as the process of making allowances within one's current budget to set aside money for the purpose of future endeavours. Furthermore, saving is best described by the adage: "Saving for a rainy day," (author unknown) where the concept of setting aside surplus income to prepare one for periods when income is lower. Masilela (SASI, 2010) summarises the concept of saving as, "saving is all about discipline and people spending less than they earn."

2.2.1 GROSS NATIONAL SAVINGS (GNS)

Prinsloo (2000: 1) defines a country's saving as the amount of resources or income produced in a given year, that is not immediately consumed but rather put to use in a way that would provide economic returns in years to come. Furthermore, Prinsloo (2000: 3), states that gross saving represents the portion of total income generated during a certain period, which is then not consumed. Thus Prinsloo identifies saving as retained income resulting from the postponement of consumption. Strydom (2007: 1) adds to this when stating that saving could be interpreted as a macro environment concept that refers to income that is not consumed in a particular time period. Gross national saving (GNS) therefore refers to the combination of savings levels across the government, corporate and household sectors and therefore play contributory parts to household savings.

Harjes and Ricci (2000: 49) define the national savings rate as the ratio of national savings to gross national disposable income (GNDI) and observed that the national savings rate remained well above 20% in the 1970s and early 1980s but fell massively thereafter until 1987. The national savings rate has marginally recovered and stabilised at around 15% in 2001 (Figure 2.1). Strydom further explains that saving is a function of income, where $S = S(Y)$, where S = saving and Y = income. Strydom therefore makes the argument for saving as a feature of a dynamic growing economy (Strydom, 2007: 3).

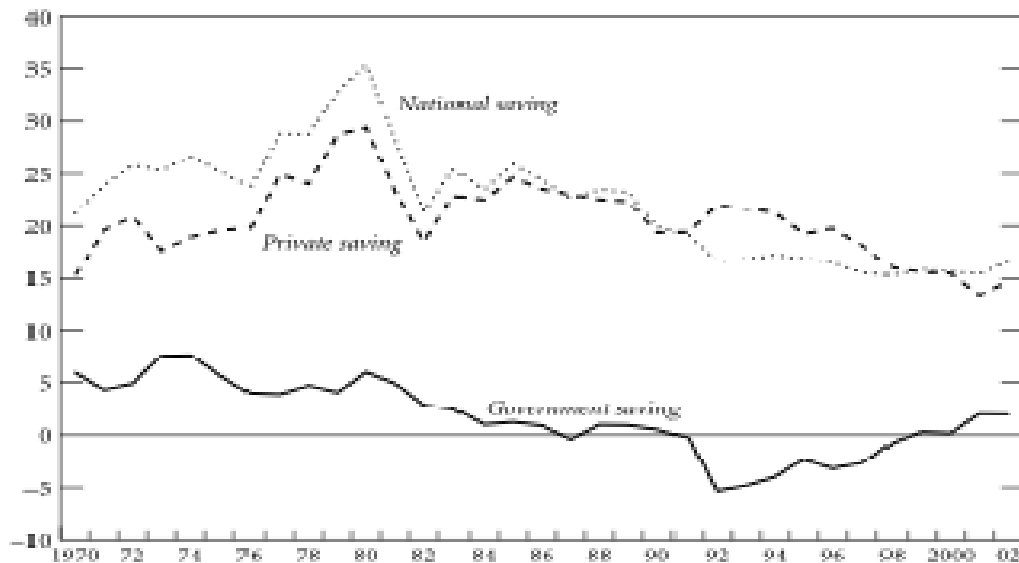


Figure 2.1: Gross National, Private and Government Saving from 1970 to 2002 (as a percent of GNDI).

Source: South African Reserve Bank data in Harjes and Ricci, 2000: 50.

Figure 2.2 illustrates saving as a percentage of GDP and reveals the negative decline in savings over the past 26 years. The declining tendency comes on the back of a high savings ratio in 1980. Strydom (2007: 3) identifies economic growth as a contributing factor to saving. In the 1980s the high gold price resulted in significant savings contributions, as illustrated in figure 2.1. Strydom (2007: 3) states that subsequent slow economic growth led to a drop in household saving, which levelled slightly in 2000 and increased during the economic boom of the early century. 2003 saw the fall in savings to its current rate in 2010, where Pickworth (2010) has identified that SA's current savings rate is 16% of GDP. Current international standards are around 25% and this is the margin that savings should look to attain.

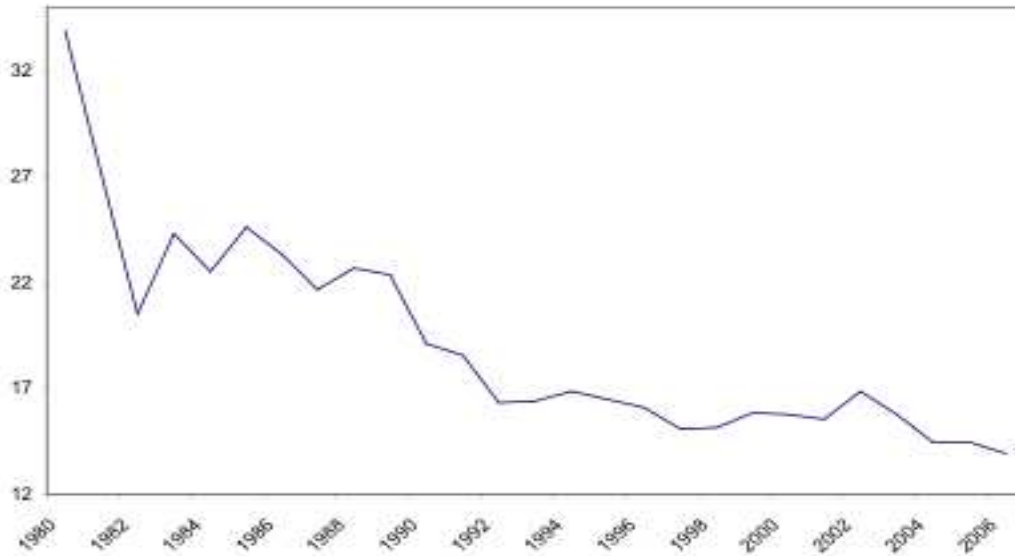


Figure 2.2: SA Gross Saving as a Percentage of GDP from 1980 to 2006.
Source: Strydom, 2007: 4.

2.2.2 HOUSEHOLD SAVINGS

The concept of household savings is best defined by Brown and Reilly (2009: 3). Throughout adulthood, people will strive to earn money and through consumption will end up spending the money. It is not often that an individual will balance his earnings with that of consumption; the resulting imbalances therefore lead an individual to either borrow or save. The process of saving occurs when current income levels exceed current consumption and present consumption is traded off for a higher level of future consumption (Brown and Reilly, 2009: 3).

Cronje (2009: 2) found that the study of savings and the savings behaviour of households is a necessary economic function, as savings is an important source of capital to fund investment expenditure. Prinsloo (2002: 73) defines saving by the household sector, as that part of current income, after the payment of direct taxes that is not consumed or transferred as part of household current expenditure. Dissaving occurs when current expenditure exceeds current income. Prinsloo further states that household savings will

increase equivalently to the net asset value of the household and includes disbursements made in the form of reduction in household liabilities, such as repayment of capital on loans for housing and consumer durables. Strydom (2007: 1) compliments this finding by his assertion that savings is not simply deferred consumption, but also includes payments from the households current income to expenses and liabilities attributed to the household, such as the repayment of capital loans. Strydom (2007: 2) stresses however, that current payments financed through means of credit constitute an increase in liabilities and therefore are regarded as negative saving or dissaving.

Strydom (2007: 2) found that household savings constitutes the part of income that is not consumed after the payment of direct taxes and further comprise regular and recurring contributions to pension and insurance funds as well as interest earned on such funds. Prinsloo (2000: 3) explains further that saving is also defined in terms of flow of the current account and excludes any capital gains and losses that occur during the reference period.

Prinsloo (2000) categorises household savings into two key categories, namely contractual and discretionary saving. Contractual saving is the savings option attained through contractual obligations to financial service providers utilizing products such as insurance policies, pension fund contributions and mortgage loan repayments. Discretionary savings were savings contributions whereby the household was not bound by fixed agreements, and was therefore at the discretion of the contributor. SARB measures household savings as the residual after actual final consumption of households is subtracted from the adjusted disposable income (SARB, 2006: 137).

2.3 TRENDS IN HOUSEHOLD SAVINGS

Trends in household savings are an important identifier of the direction that SA household savings has taken over the past 20 years. This section seeks to

outline the performance of household savings and the associated factors responsible for the upward or downward trends.

Luus (2007) in Pickworth, (2007: 1) states that the domestic savings gains achieved by the government and corporate sector are eroded by the poor rate of personal savings, to a level Luus describes as 'abysmal.' Harjes and Ricci (2000: 50) comment on the recorded drop in both corporate and personal saving; tracking its decline throughout the 1990s where it reached a low point of 13% of GDP. However, what Harjes and Ricci (2000: 51-53) fail to comment on, is the underperformance of the household saving in comparison to both private and corporate saving. Whilst corporate and personal savings declined to the lowest point of 13% in 2002, household saving appears to hover below the 5% mark since the early 1980s. Harjes and Ricci (2000: 48) state that SA has experienced a steady decline in its national savings rate since 1970 and this has occurred alongside the steady decline in domestic investment (Figure 2.3).

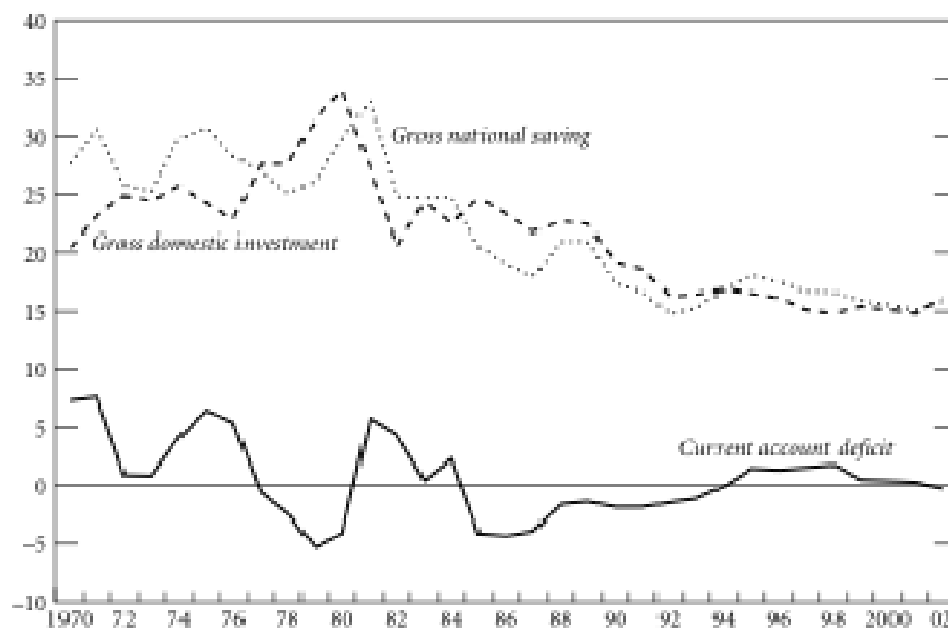


Figure 2.3: Gross Domestic Investment, National Saving and the Current Account Deficit from 1970 to 2002 (as a percent of GDP).

Source: South African Reserve Bank data in Harjes and Ricci, 2000: 49.

Figure 2.4 in 2000 illustrates the significant gap between private, corporate and household saving, and helps better identify the trend of household savings over the past three decades.

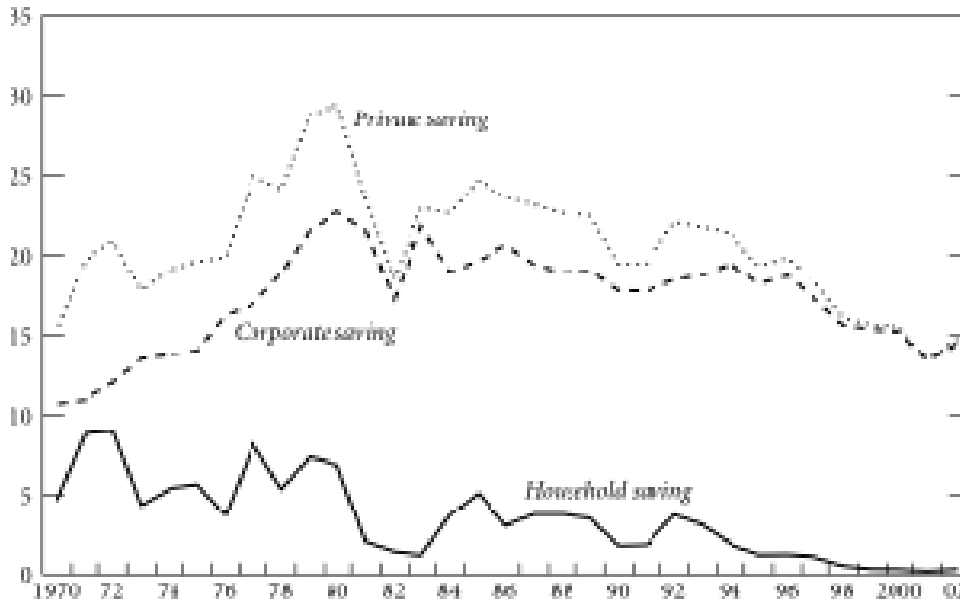


Figure 2.4: Gross National, Private and Government Saving from 1970 to 2002 (as a percent of gross national disposable income).

Source: South African Reserve Bank data in Harjes and Ricci, 2000: 50.

Figure 2.5 illustrates the net savings components of GDP in SA and show how household savings have steadily decreased since 1980 at 6% to a negative percentage in 2006. The savings trend of households over the past two decades indicates an apparent disregard for savings amongst South African households and in 2006 this amounted to a dissaving. According to Strydom (2007: 5), figure 2.5 depicts the components of saving on a net basis. Strydom states that figure 2.5 illustrates the negative effect of government dissaving on aggregate saving during the second half of the 1990s and thereafter moving into positive territory in 2006. Strydom argues that this is due to increased efficiency in tax collection and poor delivery of public services at provincial and municipal level. A declining budget deficit has a negative effect on national saving as dissaving within government comes to a halt. Strydom explains that this in itself will not result in rising saving patterns by households. Budget surpluses would therefore likely end government dissaving with the resulting

redistribution fiscal policies having a negative effect on saving. High individual tax rates impose a tax burden that enforces tax payments out of savings. Government redistributes this in favour of consumption with a net negative effect on household saving.

Figure 2.5 further illustrates the trend of the strength of corporate saving in SA. Strydom (2007: 5) explains the link between corporate and household saving as that of benefitting from the tax system that encourages households to accumulate saving in the corporate sector through tax arbitrage. The national maximum tax rate on individuals is 40% in comparison with the flat rate on companies of 28%. Individuals could therefore substantially benefit from tax arbitrage through the process of channelling income into corporate companies and at the same time suppress household saving and benefitting company saving.

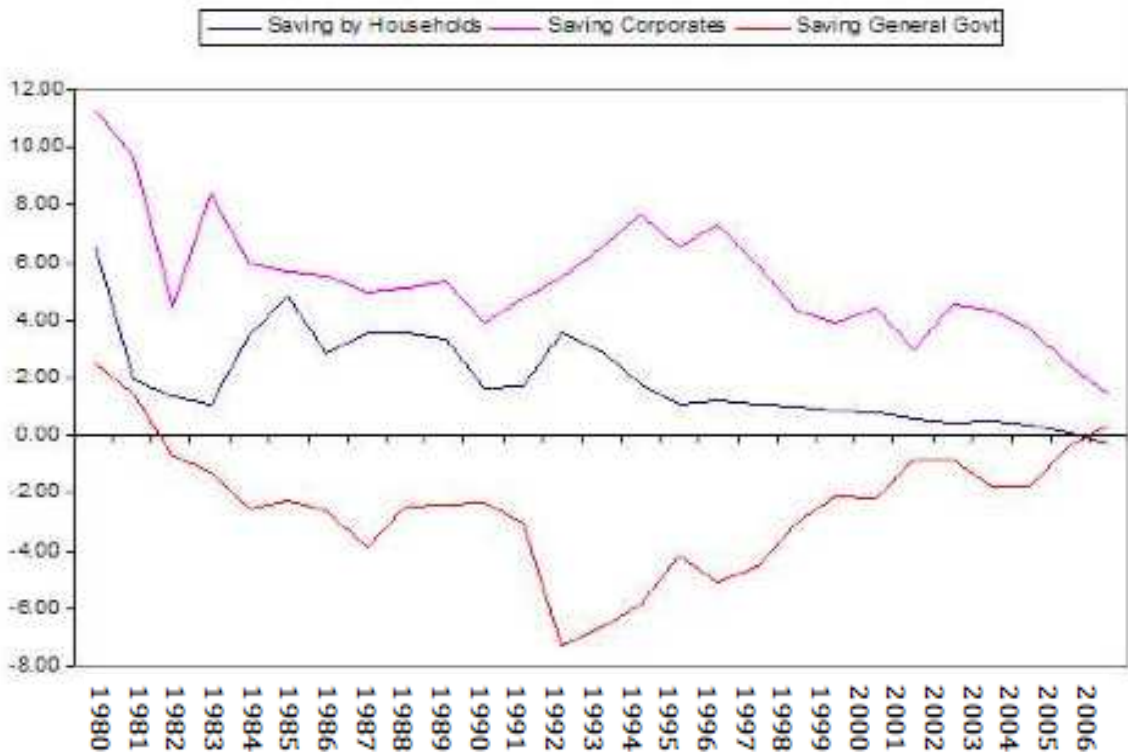


Figure 2.5: SA Net Saving Components Percentage of GDP from 1980 to 2006.

Source: Strydom, 2007: 5.

Figure 2.6 by Laubscher (2009: 10) indicates the latest household savings position as of 2009, as a percentage of GDP in relation to that of Corporate and Government savings. Household savings illustrates a declining trend that drops to below 0% in 2006.

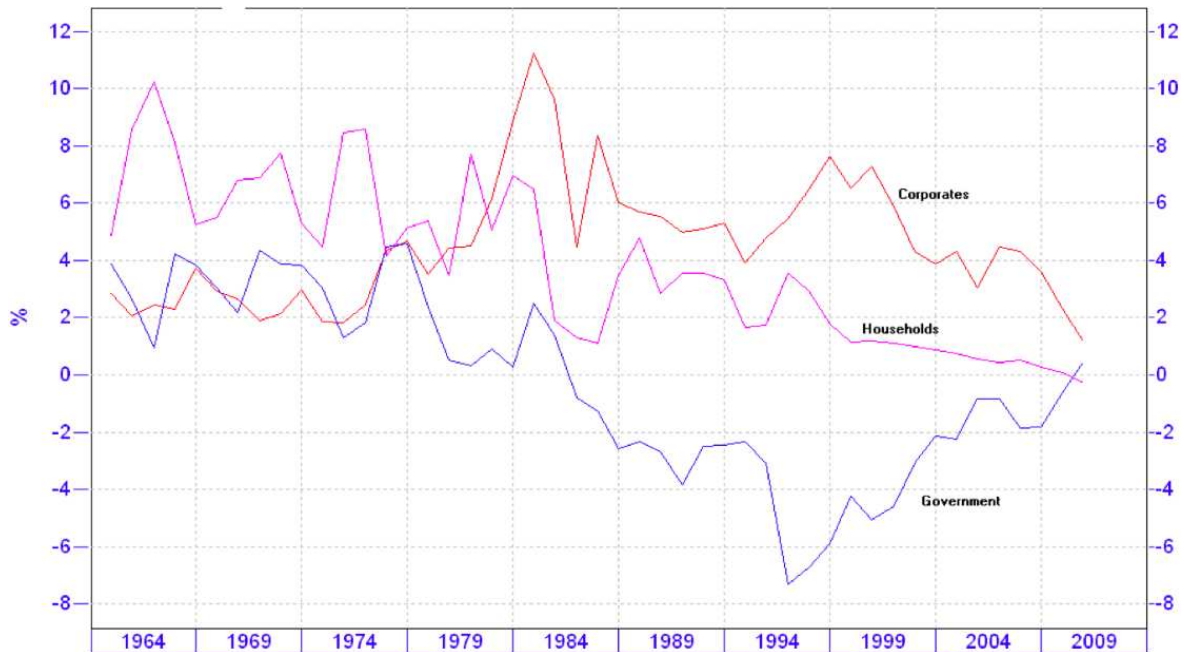


Figure 2.6: South African Corporate, Household and Government savings rates from 1964 to 2009 (% of GDP).

Source: Laubscher, 2009: 10.

Du Plessis (2008: 9) illustrates the decline in South African households saving between the periods 2000 to 2007 in table 1. The decline culminates in dissaving in 2006 and 2007 where negative savings occur for households. However du Plessis fails to address the significant growth in real disposable income per capita of households from R13450 in 2000 to R25277 in 2007. This equates to a 46.8% increase in disposable income over an 8-year period. Table 2.1 also illustrates that over the 8-year period as disposable income per capita of households increases, so too does household debt to disposable income. In 2007 household debt stood at 53.3% of disposable income and increased to a staggering 76.5% of disposable income in 2007. The trends displayed in table 1 indicate a serious declining trend in saving amongst SA households. In 2000, net household savings declined from a positive figure of R6922 (million) to

negative R6885 (million) over a period of eight years. This illustrates the level of dissaving occurring in household savings.

Table 2.1: South African Household Disposable Income (HDI), saving and debt from 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, 2008.

Figure 2.7 further illustrates the growing divide between household saving and household debt from 1993 to 2007. The growth period of 2003 to 2007 illustrates the sharp rise in household debt and an equal and opposite decline in savings. Aron and Muellbauer (2000) identified financial liberalisation and access to credit in 2000 as a growing threat to household savings. The rate at which this gap has grown indicates that the warnings were not heeded.

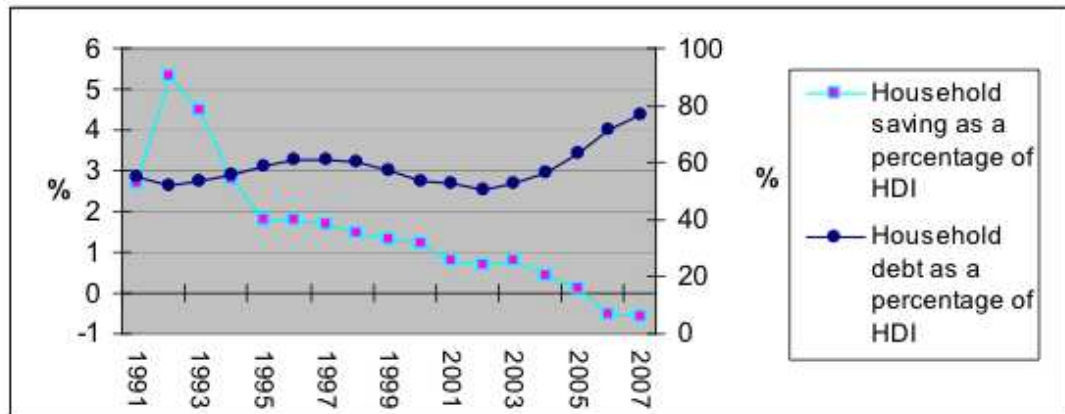


Figure 2.7: Household saving as a percentage of HDI from 1991 to 2007.

Source: SARB Quarterly Bulletin, September 2008.

Table 2.2 illustrates that in relation to other first world countries, South Africa trails the developed markets in household savings. Table 2.2 indicates a surprisingly low level of saving amongst leading developed countries such as Australia and the United States. France, Germany, Austria and Switzerland head the table with figures greater than 10.1% of household saving as a percentage of disposable income. However, in a report prepared for SASI, Bester *et al*, (2008: 3) identified South Africa as having a low household savings rate in relation to other emerging markets within the South African Development Community.

Table 2.2: South African household savings rates compared internationally from 2003 to 2007.

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 in SARB, 2008: 150.

Figure 2.8 depicts the contractual versus discretionary savings by households. Strydom (2007) states that the comparison of contractual and discretionary savings effectively demonstrates how substitution is used in the household savings process where declining discretionary saving is replaced with contractual savings. Strydom points out this significance during the 1990s and goes further to illustrate the improvement of discretionary savings in the 2000s due to the problems experienced in the contractual savings markets. This was attributed to the poor performance of investments with insurance companies during the past decade and one which swung the balance of savings in favour of discretionary savings.

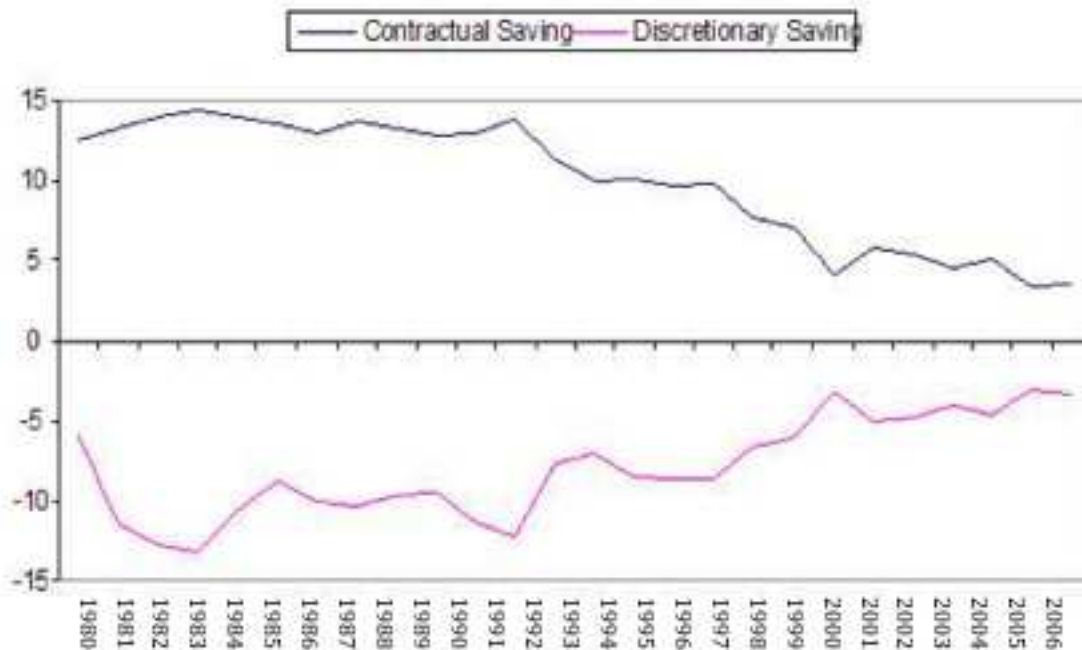


Figure 2.8: Components of Net Household Savings as a Percentage of GDP from 1980 to 2006.

Source: Strydom, 2007: 7.

Figure 2.9 depicts the real final consumption expenditure and gross savings ratio of the household sector from 2003 to 2009. The SARB (SARB, 2009) issued the following statement on gross savings and consumption: “The gross saving rate of the *household sector* edged lower from 1,8% in the first quarter of 2009 to 1,7% in the second quarter. The saving ratio, however, improved from the fourth quarter of 2007 when a saving ratio of 1,3% was recorded. This improvement occurred concurrent with a slowdown in the pace of growth of consumption expenditure by households.” Reasons for these are identified by the SARB(2006) who had identified negative levels of household saving for the first time due to key factors such as widespread credit extension and excessive spending (SARB, 2006).

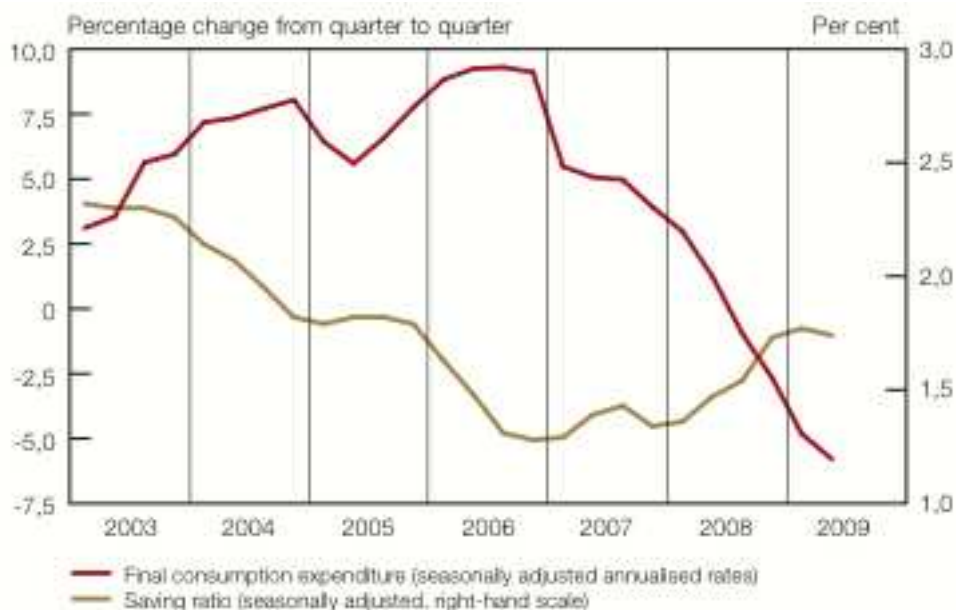


Figure 2.9: Real Final Consumption Expenditure and Gross Savings Ratio of the Household Sector from 2003 to 2009.

Source: SARB, 2009: 13.

In figure 2.10, Laubscher (2009: 16) illustrates the declining household savings rate as a percentage of GDP, from the peak established in 1994 to the dissaving achieved in 2008 and 2009. In figure 2.10, Laubscher illustrates how household savings have declined since 1994. To further illustrate this decline, Laubscher compares households saving as a percentage of disposable income, as illustrated in figure 2.11, to measure the savings achieved by households from the available disposable income available to households after the necessary expense deductions. Laubscher attributes this decline; in figures 2.10 and 2.11 to the decline in income and therefore a lower propensity to save which results in a lower disposable income. Laubscher states that low economic and employment growth as well as a rising tax burden has contributed to the reasons for low disposable income growth. Laubscher identifies a lack of confidence in SA's future as a contributing factor towards a household's low propensity to save. High inflation, where consumers are urged to buy before prices rise as well as financial deregulation both contribute towards a household's low propensity to save.

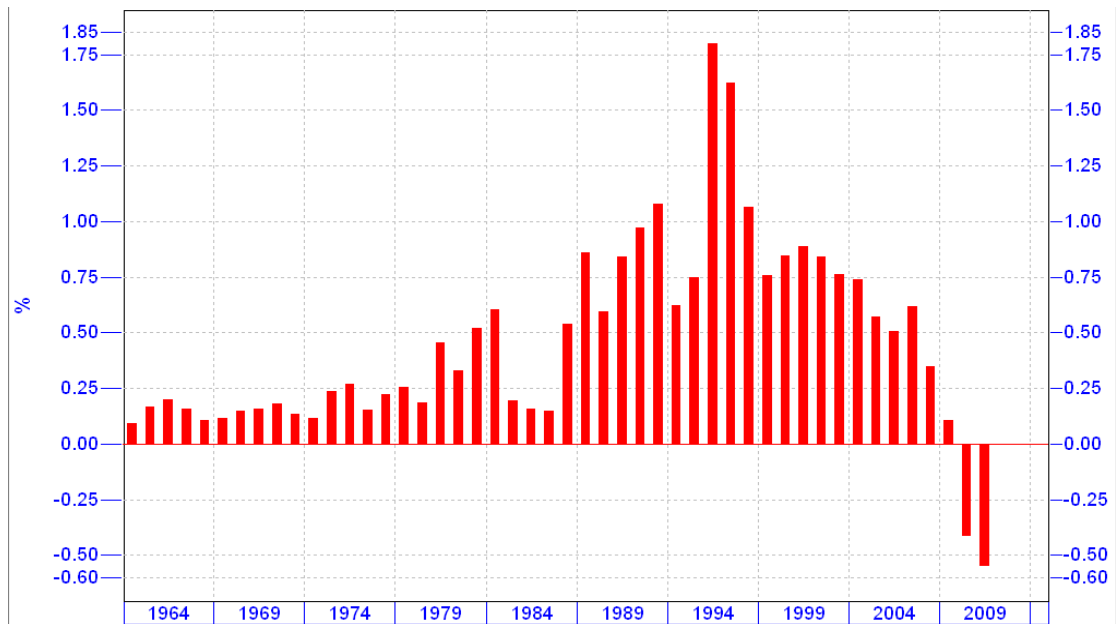


Figure 2.10: Household savings rate from 1964 to 2009 (% of GDP).

Source: Laubscher, 2009: 16.

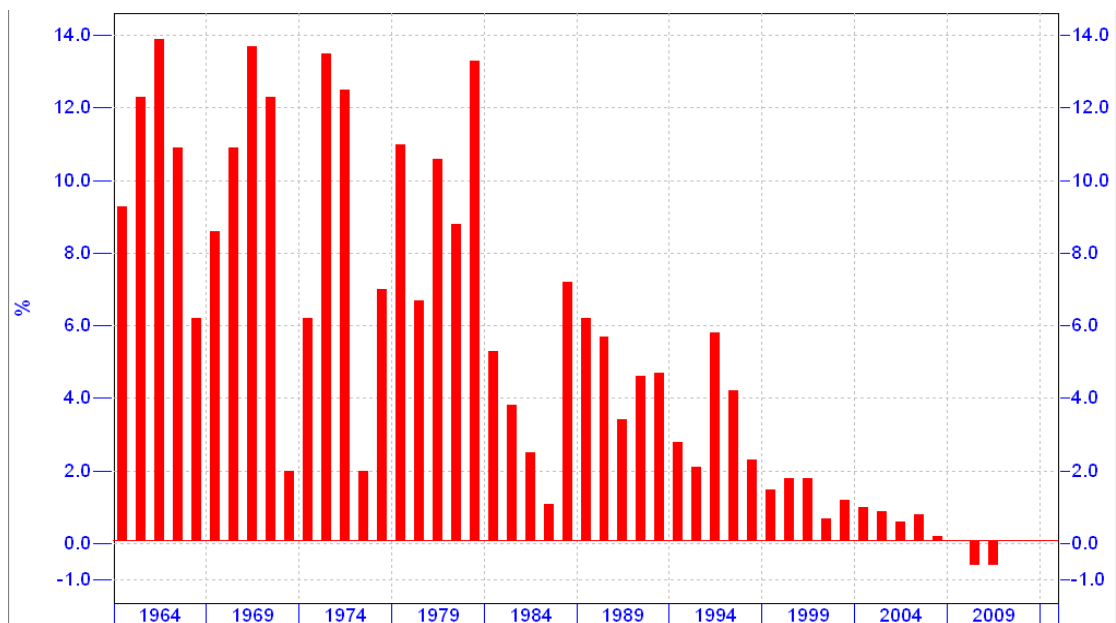


Figure 2.11: Household saving from 1964 to 2009 (% of disposable income).

Source: Laubscher, 2009: 17.

Figures 2.11 and 2.12 show that as fluctuations occur in the economy, so too do the consequent effects on real disposable income. Figure 2.13 is also

incorporated to help illustrate the effects that economic growth consequently has on the ability of households to save.

In figures 2.12 and 2.13, Laubscher illustrates the growth in real disposable income as well as economic growth experienced in South Africa since 1964. Laubscher highlights these two variables to display the correlation between economic growth and the effect it has had on real disposable income.

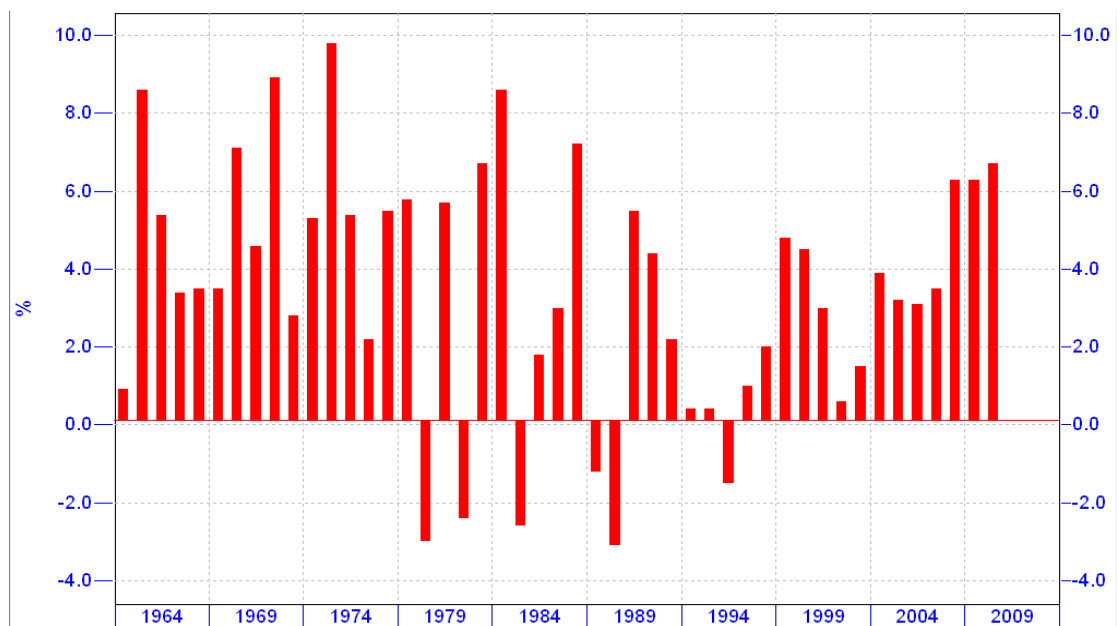


Figure 2.12: Growth in real personal disposable income from 1964 to 2009.

Source: Laubscher, 2009: 19.

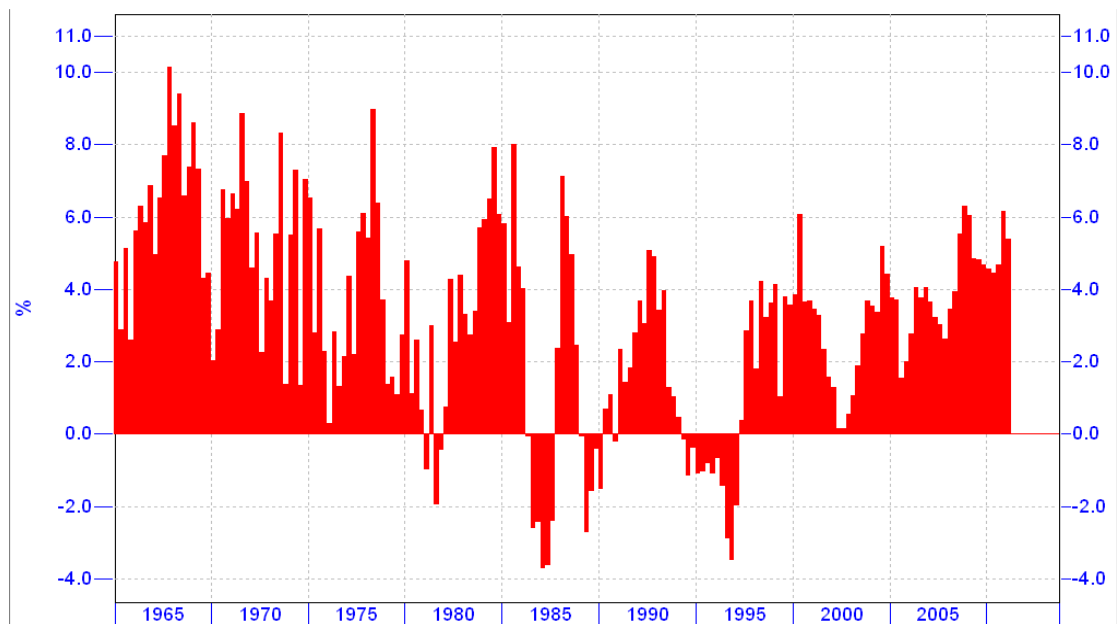


Figure 2.13: Economic growth from 1965 to 2005.

Source: Laubscher, 2009: 20.

2.4 SAVINGS BEHAVIOUR OF SOUTH AFRICAN HOUSEHOLDS

Masilela (2010), the director of the South African Savings Institute (SASI) holds the view that the savings accounts of government and corporates are healthy, whilst household saving trends were poor and declining. Masilela found that the fundamental reason for a poor culture of saving in South African households lies with consumer behaviour. Masilela further states that saving requires both discipline and people spending less than they earn. A household's current behaviour is consumer driven with insufficient thought given to the subject of saving. In order to save effectively, Masilela indicates a lifestyle adjustment is necessary that is tailored to suit the household's income and requires ultimately a re-directing of a portion of income to a savings scheme. The implications of a poor household savings culture, mirrors that of the economy. Masilela (2010: paragraph 7) states: "If a household is not saving enough to fund its needs, whether it is consumption or investment, it will have to borrow. The more you borrow, the less creditworthy you become and the higher the interest rate you have to pay."

2.5 THE IMPORTANCE OF SAVING

South Africa's household savings rate is not only important for the role it plays in preparing households for unforeseen expenditures, but also for the ability to contribute to the overall gross domestic savings. Therefore, improvements in South Africa's household savings rate have further benefits to both economic stability and growth. Mboweni (2006: 2) in his address to the Worcester Rotary Club, expressed concern for the rate of consumer demand. Mboweni noted that household consumption expenditure had increased by 8% indicating this to be the highest rate of growth in 10 years. Whilst the excessive demand had been fuelled by a number of factors, it was the resultant borrowing that was cause for concern. Mboweni points to an increase in household debt, which, as a percentage of household income had risen to 70%. Furthermore, Mboweni (2006: 3) stated: "South Africans are not only spending too much, we are also borrowing too much. In other words we are not saving enough. There is simply not a culture of saving in SA, and people tend to live as if there is no tomorrow." Mboweni, highlights the negative impact that consumerism has on both households and the inflation rate and in doing so, draws attention to the importance of household savings.

SASI found that saving for the future and financial saving preparation will assist South Africans in the lowering of future financial stress, through being able to accommodate for unexpected expenses (SASI, 2010). SASI (2010) goes further to highlight the importance of retirement saving as early preparation for retirement living has a significant impact on contributions and benefits due to the effects of compound interest.

Elbadawi and Mwegu (2000: 427) noted that a strong saving performance is crucial for macroeconomic balance and for the maintenance of financial stability (inflation) and price stability (exchange rate). Harris (2003: 5) contributes further when stating that saving must be encouraged to avoid future market failures and that consumers should look to protect themselves and avoid placing a financial burden on the government and fellow taxpayers. Nga (2007: 5) builds

on this notion in stating that household needs are varying in nature with certain needs requiring immediate attention, whilst other needs are uncertain and unforeseen. In preparing for future uncertainties, savings need to be set aside to accommodate these needs. In order to do so, current consumption must be sacrificed in order to prepare for future consumption. Cronje (2009: 7) identifies the importance of household saving as being critical to establishing a balance between current and future household consumption. Cronje points to the need for delaying current consumption and setting aside savings to accommodate for future needs. Cronje believes this is necessary to both maintain and improve the quality of life of household members.

2.6 THEORETICAL MODELS OF SAVING

Early theoretical models of savings have helped explain, classify and shape theories on the savings behaviour of individuals. The key theoretical savings models are highlighted by the works of John Maynard Keynes in Modigliani (1986: 298) who established the absolute income hypothesis (AIH) model, which was later followed by Franco Modigliani (1954) who established the life-cycle saving hypothesis, and Milton Friedman (1957) who proposed the permanent income hypothesis. Keynes, Modigliani and Friedman were responsible for theoretical models of saving that have endured over the years and have helped establish key factors that influence current household saving decisions.

2.6.1 JOHN MAYNARD KEYNES – ABSOLUTE INCOME HYPOTHESIS (AIH): THE KEYNESIAN VIEW

Keynes identified income as a key determinant in individuals saving behaviour and further proposed that income was linked to that of both consumption and saving. Keynes suggested that a household's savings would systematically increase upon an increase in income (Modigliani, 1986: 298).

Keynes viewed savings as that of a luxury good and he provided eight motives as to why people save.

1. *The precautionary motive*: To build up a reserve against unforeseen contingencies.
2. *The life-cycle motive*: To provide for an anticipated future relationship between the income and the needs of the individual.
3. *The intertemporal substitution motive*: To receive interest and capital appreciation.
4. *The improvement motive*: To enjoy for gradually increasing level of expenditure.
5. *The independence motive*: To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action.
6. *The enterprise motive*: To secure a *masse de manoeuvre* to carry out speculative or business projects.
7. *The bequest motive*: To bequeath a fortune.
8. *The avarice motive*: To satisfy pure greed, i.e. unreasonable but insistent inhibitions against acts of expenditure, such as greed. Modigliani (1986: 298).

Keynes outlines the savings function with the linear equation illustrating the marginal propensity to save: $S = \alpha_0 + \alpha_1 YP$

Where:

S = gross domestic saving;

YP = gross national product; and

α_1 = constant marginal propensity to save;

α_0 = the intercept (with $\alpha_0 < 0$).

Mikesell and Zinser (2001: 3) state that $\alpha_0 < 0$, and $0 < \alpha_1 < 1$, therefore as the level of income increases, so too does the average propensity to save (APS).

Further research by Browning and Lusardi (1996: 1797) only added one further motive for saving and that is 'the down payment motive' where savers accumulate deposits to put down on houses, vehicle and other assets. Evidence suggests that Keynes initial interpretation of household savings was indeed accurate over the ages. However, Cronje (2009) raises the argument for Keynes who also suggested that where the marginal propensity to consume (MPC) is positive, income increases and therefore results in an increase in consumption. Keynes stated however, that the resulting increase in consumption would however be less than the increase in income (Devaney, Anong and Whirl, 2007: paragraph 3).

Cronje criticised the Keynesian model in that the consumption function was based on current income and not that of future income. It was as a result of this criticism that Friedman's Permanent Income Hypothesis (PIH) and Modigliani's Life Cycle Hypothesis (LCH) arose.

2.6.2 MILTON FRIEDMANS'S PERMANENT INCOME HYPOTHESIS (PIH)

Friedman (1967) in Cronje (2009: 10) states that individual and household consumption decisions were being based on the individuals and households assumption of an expected long-term income as opposed to Keynes's (AIH) approach, which is based on current income. Friedman distinguishes between two types of income contributing to household saving.

- Permanent income: Miksell and Zinser (1973: 4) further define permanent income as a long-term income expectation over a planned period and includes a constant rate of consumption over a lifetime, given the current levels of wealth (Muradoglu and Taskin, 1996). Samuelson and Nordhaus (1995: 430) go further to state that permanent income is the remaining income due to households after the deduction of temporary influences.
- Transitory income, as defined by Samuelson and Nordhaus (1995: 430) state, "it is the difference between actual and permanent

income and is therefore affected by temporary influences.” Friedman states that there are changes to transitory income, which do not have a bearing on an individual’s savings or spending behaviour, as transitory income is not channelled to savings.

Meghir (2004: 293) in Cronje (2009: 10) states that consumption is proportional to the individuals permanent income due to the fact that the individuals consumption is a small proportion of permanent income; thereby leaving the average propensity to consume being equal to the marginal propensity to consume.

Cronje (2009: 11) concludes that low-income earners have a higher propensity to consume whilst high-income earners have a higher transitory income, which enables them to have a lower average propensity to consume. Harjes and Ricci (2005: 52 - 53) in du Plessis (2009:23) contributes further when adding that both the LCH and PIH predict that temporary increases in current income mostly results in additional saving, whilst permanent income would most likely result in additional consumption.

2.6.3 FRANCO MODIGLIANI'S LIFE-CYCLE HYPOTHESIS OF SAVING BEHAVIOUR (LCH)

Cronje (2009: 11) highlights the contrast between Friedman’s PIH and Keynes’s AIH, by stating that Friedman challenged Keynes’s view on current income with his model which greater recognised the role of future income in household savings and consumer consumption. Modigliani’s life-cycle hypothesis found that consumer savings and consumption behaviour is affected by the consumer’s choice based on the stages of the age and life cycle (Modigliani and Brumberg, 1954: 3). Modigliani’s analysis reveals that individuals spread their lifetime consumption evenly over their lives. This is achieved through the accumulation of savings during the earning phase life-cycle and then maintenance of consumption levels whilst in retirement.

Modigliani's LCH is structured principally around the motives of wealth acquisition and retirement savings based on the premise that households are future orientated with the aim of maximising total utility in both current and future consumption.

Cronje (2009: 11) believes that the LCH model predicts that younger people will not save enough due to their limited earnings capacity and this therefore results in credit borrowing to finance their current consumption needs. Cronje (2009: 11) further highlights that based on this model, middle-aged individuals are more likely to save the most due to their increased earning capacity and resultant lower credit borrowing, placing them in a better savings position. Cronje found further that the elderly are not likely to save and could even potentially reach a position of dissaving due to decreasing income not being able to meet their current consumption.

In figure 2.14, Modigliani (1986: 300) refers to a simplified version of the life-cycle model; which emphasises that savings primary motive is for that of retirement and wealth acquisition. Cronje (2009: 12) summarises the stripped down model as such:

- Income is constant until retirement, and then zero thereafter;
- Possesses a zero interest rate;
- Tastes and preferences are constant over the life-cycle;
- There is an absence of bequests (i.e. no children).

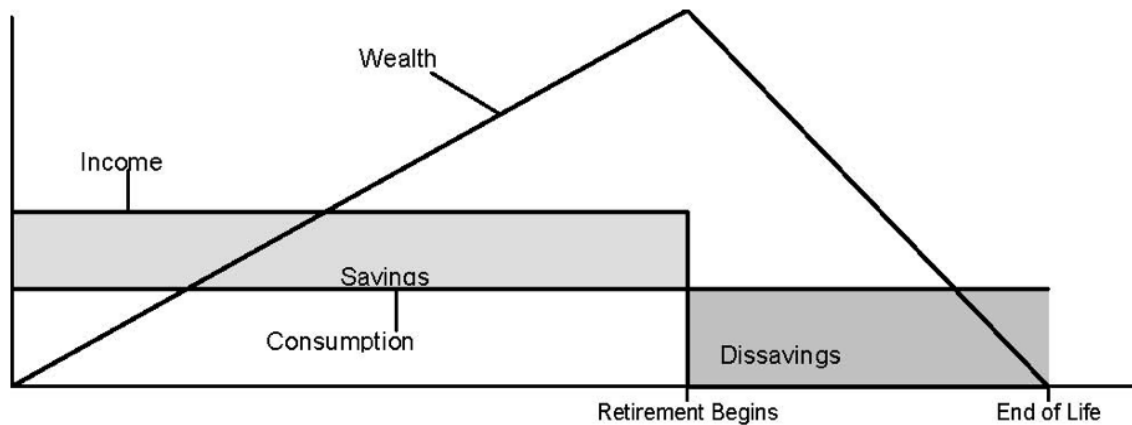


Figure 2.14: Modigliani's life cycle path.

Source: Modigliani, 1986.

Modigliani, (1986: 300 - 301) in Cronje (2009: 12) identifies that the basic model of Modigliani includes the following macro economic impacts.

1. A countries saving rate is entirely dependent on its per capita income.
2. Differences in national rates of saving are consistent with fluctuations in individuals life cycle behaviour.
3. Aggregate savings are proportionally affected by positive rates of growth and the period of time it occurs.
4. Growth rate is tied to a decreasing wealth-income ratio, thus being largest at zero growth.
5. An economy is able to accumulate substantial wealth relative to income without the passing of wealth via bequests.
6. The length of retirement is controlled by the wealth-income ratio and the savings rate for a given level of growth.

Cronje (2009: 13) believes that given the current availability of research and literature, Modigliani's life cycle hypotheses should be re-evaluated due to contradictions in assumptions of the age of the population and the economic life-cycle.

2.7 FACTORS AFFECTING SAVING

Du Plessis (2008) states in her research that understanding the factors contributing to savings behaviour is important in creating policies to promote household saving. Loayza, Schmidt-Hebbel, and Serven (2000: 2) report their findings that conclude that only a limited number of factors are consistently significant in affecting the rate of saving. Loayza *et al.*, (2000: 2), identify these determinants as including: terms of trade, domestic and foreign borrowing constraints, fiscal policy variables and pension system variables. However, Harjes and Ricci (2000: 54) found that the empirical studies by Loayza *et al.*, differ significantly from the widely accepted theories on factors influencing savings; these include income growth, demographic factors, interest rates and inflation.

2.7.1 FINANCIAL LITERACY

Financial literacy and knowledge of the importance of saving are important facets of establishing a culture of saving. There is argument in support of the fact that there is a lack of financial literacy amongst South Africa's low-income earners. Musewe (2008 in du Plessis, 2008: 67) raises the contrasts between service providers in the financial service industries. In 2008, Musewe was of the opinion that the black market was characterised as one insufficiently catered to with products that were simple in nature and structured towards lower levels of financial literacy.

However, du Plessis (2008: 25) cites Roth, Rusconi and Shand (2007: 5) who conducted a study on saving amongst lower income earners and found that poor households are not limited to formal savings structures and are able to make savings contributions through informal schemes. Roth *et al.*, (2007: 5) identified Accumulated Savings and Credit Associations (ASCA's) and Rotating Savings and Credit Associations (ROSCA's), which are commonly referred to as '*stokvels*' in South Africa, as examples of informal savings models. Du Plessis cites the Finscope™ survey (2006) that identifies 7% of South Africans

belonging to a 'stokvel' or savings club. Du Plessis cites the most popular savings mechanisms in South Africa as evidenced by the Finmark Trust (2007b: 3) in the table 2.17

Table 2.3: Most popular 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.

2.7.2 EDUCATION

Musewe (2008) in du Plessis (2008: 68) found that the level of financial education and literacy was insufficient in creating a culture of saving amongst South Africans. Musewe is of the opinion that this lack of financial education has brought about inadequate exposure to financial concepts and therefore resulted in South Africans not having learnt to save. Musewe (2008) in du Plessis (2008: 68) believes that a lack of education is central to the root of the savings problem. Musewe (2008) in du Plessis (2008: 68) advocates a focus by government on raising the levels of education in order to address savings problems.

Manyama (2007: 68) states that education has the ability to empower people to create a life skill that is essential to bringing about a culture of saving. Once people are empowered with education, Manyama (2007: 68) is of the opinion that the mindset and attitudes towards savings will subsequently change. Manyama identified in her research (2007: 69) that once people are sufficiently educated on the subject of saving, the associated benefits, and the various strategies to saving, only then will the culture of saving in South African households be improved.

SASI have implemented two educational programs designed to educate schools and universities on the complexities and benefits of saving. SASI have implemented a schools program titled "Teach Children to Save" which is promoted during savings month every July. The program aims to take the savings message to young children in the hope of planting the savings seed at a young age. SASI aims to equip young children with basic financial skills to becoming better savers who are financially savvy and aware (SASI, 2010). SASI have also developed a Varsity Financial literacy campaign aimed at university students. SASI states that graduates leave university with little understanding of how to manage their finances and are prone to squander their first earnings. SASI have embarked on a varsity awareness campaign to raise the level of awareness among students about the benefits of savings and of short, medium and long term financial planning. SASI also aim to provide basic information on savings skills and equip students to adopt a savings plan for their futures.

2.7.3 FINANCIAL LIBERALISATION

Aron and Muellbauer (200: 515) state that the effects of financial liberalisation are important to the savings contributions of both households and corporate entities. Under apartheid urban and rural black households had limited access to formal saving and credit facilities. Prinsloo (2000: 18) found that deregulation and financial liberalisation that occurred since 1994, has led to renewed lending opportunities giving individuals greater access to finance and credit facilities. Retail and banks joined the fray in aggressively offering credit to consumers through differing income levels. This marketing brought about significantly high levels of consumer credit and consequently a rise in consumer debt.

Aron and Muellbauer (2000: 512) are of the opinion that financial liberalisation has led to a decrease in private saving through the introduction and increase in credit borrowing. Aron and Muellbauer (2000: 515) observed that this occurred

as a result of increased access to credit and relaxed credit controls. In 2006 SARB identified negative levels of household saving for the first time due to key factors such as widespread credit extension and excessive spending (SARB, 2006). Manuel (2011, paragraph 1) believes that SA is fast becoming a nation of highly indebted families. Manuel explained that South Africans are living from hand to mouth and are spending their future salaries in advance. According to Manuel: “we’ve spent money we haven’t earned yet, and we’ve spent it on goods we don’t need. We are trying to keep up with the Kunene’s.” (Manuel, 2011, paragraph 7). SA’s low saving rate has meant that households therefore rely on borrowed money. Manuel’s comments highlight the role that financial liberalisation has on the average South African household and how the access to credit has created an indebted society through consumerism and an attempt to keep up with the Joneses and Kunene’s.

Prinsloo (2000: 18) shares this view when stating that the redistribution of income to low-income earners has contributed to excessive consumption and thereby reduced the household savings rate. Strydom (2007: 8) identified that recent access to credit and the resultant financial liberalisation that occurred over the past decade has led South African households to increasing their consumption expenditure. An analysis conducted by Strydom (2007: 8) indicated that households were able to accumulate gains through the acquisition of assets and subsequent asset price inflation. Although South African households were exposed to high levels of credit, the assets were geared low. Strydom is of the opinion that the South African tax system is unsympathetic towards saving, thereby resulting in households investing capital in assets. Due to the high rate of capital gains tax, households deferred the liquidation of such assets and instead chose to accumulate further assets and ultimately improve their net worth. Households therefore spent income on financing their consumption by means of financial liberalisation and access to credit whilst still maintaining a low gearing ratio.

2.7.4 BUDGETING

Prinsloo (2002: 74) identifies the case for budgeting and the effect it has on consumer saving when stating that a 'fundamental cause' for the decline in household savings is due to a concerted effort by households to save less or due to the high level on household consumption. The lack of budgeting and the resultant effect on savings is evident in the savings trends of households identified earlier in the chapter. Musewe (2008) in du Plessis (2008: 65) is of the opinion that the preparation of a financial budget and the sharing of financial information are not common in black households and points to the lack of a culture of savings as reasons for this.

Prinsloo (2000: 17) identified the negative impact that the wealth effect has on consumer saving. Prinsloo found that homeowners incorrectly perceive the increase in their personal house prices as an addition to their wealth, and subsequently reduce their savings contributions.

2.7.5 INCOME LEVELS

Prinsloo (2000: 18) found that since the 1990s there is a high dependency ratio amongst low-income earners. This is evidenced by households who rely solely on the income of the breadwinner. Further strain is placed on the breadwinner due to rising unemployment and the size of the extended family relationships. The limited income of low-income earners is placed under significant stress through these factors; which ultimately reduce household's ability to save. Keynes's Absolute Income Hypothesis and Friedman's Permanent Income Hypothesis further establishes the positive relationship between an increase in income and the effect on savings.

Du Plessis (2008: 3) further contributes to this, when stating that increased levels of income have had an increasing effect on the ability of households to

save. This statistic has also presented itself through decreasing savings amongst higher income earning countries, most notably the United States of America. Du Plessis (2008: 3) cites Guidolin and Le Jeunesse (2007: 491) in stating that the savings rate in America is at its lowest level since the Great Depression in 1933. Du Plessis (2008: 3) contrasts this with the savings levels of countries such as India and China, which are characterised as traditionally low-middle income countries, with savings levels substantially higher than that of the US.

Prinsloo (2000: 18) has confirmed through analysis that lower-income households are not saving enough. Prinsloo notes that higher income individuals contribute significantly more towards personal savings. It was noted in his findings that lower income households spent their income on basic needs, leaving little or nothing at all for savings contributions.

In a telephonic interview with Leon Campher (3 February 2011) of ASISA, Campher explained that in his view, he surprisingly found that the poorest savers across the income spectrum were the individuals earning greater than R500 000 annually. Campher's findings contradict the available literature, Prinsloo states that traditionally savings ratios tend to rise as income levels rise. The researcher believes that the links between saving and income inequality are not widely enough reported on.

Prinsloo (2000:19) identifies the slowdown in income growth, 2.3% between 1990 and 1999, as remaining below the long-term trend of real household income. Further to this, the growth in taxes has decreased the disposable income available to households and as a result has subsequently weakened household's contributions towards savings. Cronje (2009: 14) cites Loayza (2000a: 173) who stated that the growth of real per capita income has a positive effect on private savings. Cronje explains further that whilst income is a key determinant of a household's savings, conversely income inequality also has a key role to play in the ability of households to contribute towards savings.

2.7.6 SAVINGS CULTURE

Stals (2001: 4) as cited in du Plessis (2008: 31) states that “the propensity to save is part of the established culture of a nation.” Laubscher (2006) found that although rising debt and ensuing low savings can be attributed to financial deepening in South Africa, he is of the opinion that it is a greater reflection of a lack of a savings culture. Cronje (2009: 2) believes that the savings culture in South and East Asian countries have increased in relation to Sub-Saharan African savings rates. Cronje (2009) in his thesis: “Creating a savings culture for the Black middle class in South Africa – policy guidelines and lessons from China and India” found that both India and China had significantly higher savings ratios in comparison with the low savings rates of South African households. Cronje attributes this to a lack of savings culture amongst South African households.

Table 2.4 illustrates a comparison of household savings rates with those of developed countries and this table helps illustrate South Africa’s poor culture of saving in relation to other countries.

Table 2.4: Household savings as a % of disposable income from 2003 to 2007.

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 in SARB, 2008: 150.

Bester *et al* (2008) in Du Plessis (2008) found that when compared with emerging countries as well as the South African Development Community (SADC), South Africa's household savings rate is still considered comparatively low. Du Plessis (2008: 24) is of the opinion that the lack of a savings culture is not limited to lower income groups, but cites Gillingham (2008:6) in acknowledging that middle-income earners are not contributing sufficiently towards personal savings. Musewe (2008) in du Plessis (2008: 65) states that the lack of saving amongst black South Africans is a cultural issue, and that the subject of finances is not openly discussed in black households. Musewe is of the opinion that black South Africans are not inculcated to save and build wealth.

2.7.7 HIV/AIDS

Freire (2004) has conducted research into the impact of HIV/Aids on saving behaviour in South Africa. Freire investigates the economic impact of HIV/Aids on households and their savings. ING Barings (2000) as cited in Freier (2004: 2) estimates that the HIV/Aids epidemic will reduce South Africa's annual growth rate by 0.3% in 2006 to 2010 and 0.4% in 2011 to 2015. The impact of HIV/Aids on savings in South Africa is presented in figure 2.15.

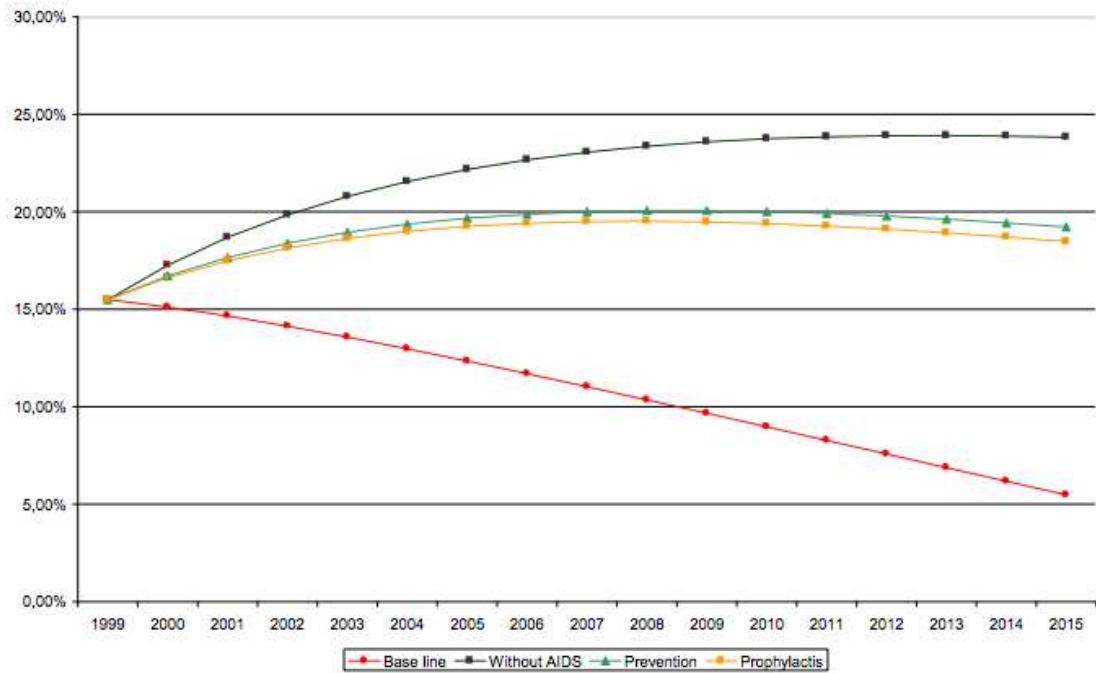


Figure 2.15: The impact of HIV/Aids on the saving behaviour in South Africa from 1999 to 2015.

Source: Freire, 2004: 15.

Figure 2.15 illustrates the rate of savings as projected for the period 1999 to 2015. The figure considers the projected baseline saving percentages of South Africans with HIV/Aids, without HIV/Aids, utilising preventative measures and post-infection treatment. In 2011, the projected difference in savings between infected and non-infected South Africans is 17%. Freire (2004) shows that the simulations predict an ever-widening gap as time passes. Masilela (2008) raises the high dependency rate arising as a result of the HIV/Aids epidemic in South Africa. Masilela is of the opinion that HIV/Aids has a significant impact on the economically active and reduces their numbers creating greater dependency amongst current households.

2.7.8 GOVERNMENT MONETARY POLICY

South Africa's monetary policy has given more attention to curbing the rate of consumer spending as opposed to focussing further on specific measures to

encourage saving. Government monetary policy is concerned with the national supply of money in the economy and is often used to target the rate of interest or supply of money in the national economy. Fiscal policy is concerned with government spending and the levying of taxes to finance such expenditure. Fiscal policies affect macroeconomic conditions and examples of mechanisms of control are taxes, and government spending (SARB, 2011). Government fiscal policy must be co-ordinated with the monetary policy otherwise the one type of policy may counteract or negate the effects of the other type. This usually results in a close liason between the nation treasury and the South African Reserve Bank (SARB, 2011).

Aron and Muellbauer (2000: 521) found that the South African government initiated financial liberalisation as part of a greater market-orientated monetary-policy. In 1995, special mortgage loans were created to allow flexible pay back on mortgages backed-up by utilising the collateral value of the household asset. The emergence of a post-apartheid South Africa brought about greater employment for black South Africans, particularly in the public sector, thereby allowing greater access to credit.

Strydom (2007: 9) is of the opinion that the saving behaviour of households has not changed over the past twenty years. Strydom (2007: 9) points to changes in government monetary policy that has brought about a negative reaction from households who have subsequently substituted household saving. Aron and Muellbauer (2000: 521) stated that the emergence of financial liberalisation significantly affected the ratio of consumption to income, as well as the ratio of debt to income.

Strydom (2007: 8) believes that a declining budget deficit has a negative effect on national saving as dissaving within government comes to a halt. Strydom states that this in itself will not result in rising saving patterns by households. Budget surpluses would therefore be likely to end government dissaving with the resulting redistribution fiscal policies having a negative effect on saving. High individual tax rates impose a tax burden that enforces tax payments out of

savings. Government redistributes this in favour of consumption with a net negative effect on household saving.

Strydom (2007: 5) found that the declining budget deficits in South Africa had contributed to an overall national saving. Strydom points out that improved national saving has occurred as a result of increased efficiency in public tax collection. This has had the effect of negatively burdening households and their savings as high marginal tax rates force households to contribute less to household saving. Strydom (2007: 8) states that the South African tax system is unsympathetic towards savings, and he attributes this to the vast differences between corporate and household tax, which encourages tax arbitrage whereby income is channelled from households to corporates.

Strydom (2007: 8) raises the viewpoint of the government tax system that has brought about a switching behaviour in savings. As discussed previously, this switching behaviour involves the substitution of savings through tax arbitrage where the current tax system switches savings from households to the corporate sector. Strydom found that households could therefore benefit from the corporate tax benefits of 28% flat rate, as opposed to the 40% of individuals. The associated high government tax rates on individuals places a burden on households that necessitates making tax payments out of savings. The benefits of tax arbitrage has led to individuals channelling income into companies, suppressing household saving and ultimately boosting corporate saving.

Du Plessis (2008: 31) believes that South Africa's monetary policy has placed greater focus on containing household consumption, yet insufficient measures have been implemented at encouraging personal saving behaviour. Prinsloo (2000: 16) adds that there is little agreement between economists on the benefits of a real after-tax and the effects it will have on household savings. A rising rate of return promotes an accumulation of savings at the expense of consumption; and thereby raises the household savings rate. Conversely,

Prinsloo states that the future returns on savings could adversely encourage consumption and consequently erode savings.

2.7.9 INTEREST RATES

Harjes and Ricci (2000: 52) have established that real interest rates are a means to influence savings in South Africa. Harjes and Ricci (2000: 53) further identified that interest rates could have two possible effects on saving, with each effect being opposite in nature. Interest rates could produce an income effect or substitution effect in relation to savings. This most likely occurs as a result of a positive increase in interest rates; which thereby enriches individuals through returns on investments and consequently leads to an increase in consumption and reduction in savings. Alternatively, increased interest rates also leads to increased returns on investment with a greater potential to save. This return on investment therefore has the power to delay consumption and increase savings. Loayza *et al* (2000a: 174) as cited in Cronje (2009: 15) states that real interest rates have a negative effect on private savings with a resultant decrease of 0.32% for every 1% increase in allowed credit.

Muradoglu and Taskin (1996: 147) in du Plessis (2008: 32) states that “an increase in the rates of return increases savings, but real income effects of higher rates of return can affect savings adversely.” Harjes and Ricci (2000: 54) identified further savings models; which highlight precautionary savings motives through an aversion to household risk. This aversion resulted in households increasing their savings as a means to protect against significant changes in the economy. Aron and Muellbauer (2000: 512) found that the presence of lower interest rates has the ability to raise both corporate and household savings.

McAleese (2004: 315) in du Plessis (2008: 32) identifies the following effects that interest rates have on saving.

- Substitution effect: McAleese establishes that a decrease in interest rates has a corresponding effect on savings for households. This in turn stimulates consumption.
- Cash Flow: McAleese states that lower rates of interest stimulates the cash flow of borrowers and decreases the cash flow of lenders.
- Wealth Effects: McAleese identifies the resultant effect on the value of property, equities and bonds, due to interest rate changes and the subsequent value adjustments.

2.7.10 CONSUMERISM

People are allowing their immediate wants and needs to take priority over sound provision for the future (Busschau, 2010). Busschau (2010) further states that this is evident through the actions of people cashing in their retirement policies to fund purchases on unnecessary luxuries. Du Plessis (2008: 2) is of the opinion that there is a link between rising consumerism in South African households and the poor levels of saving. Du Plessis believes that the increase in consumerism has also subsequently contributed to escalating inflation. Sentence (2007: 293) in du Plessis (2008: 2) states that when asset growth occurs, the resultant outcome of this is increased consumer spending and reduced personal saving.

The South African Reserve Bank in 2006 identified for the first time the emergence of negative levels of household saving due to such key factors as widespread credit extension and excessive spending (SARB, 2006). Prinsloo (2000: 23) identified that post-1994, consumer spending rose dramatically due to increases in disposable income amongst South African households. The increased disposable income had brought about demand for luxury goods and services previously not widely accessible pre-1994. With the readily available access to credit, consumers fuelled purchases of expensive goods and services with wild abandon. Prinsloo identifies the increase in consumerism amongst South African households as aspirational with a desire to impress neighbours,

colleagues and family. Consumer spending had shifted from that of essential needs to luxury wants.

Musewe (2008) in du Plessis (2008: 66) refers to a growing materialism amongst South Africans who place significant emphasis on the status value of their personal success. Markus (2006), a senior economist at ABSA, states that a key drawback of the excessive consumer spending from 2003 to 2006 resulted in a drop in household net saving. Markus (2006) elaborates further when stating: "Household net saving as a percentage of disposable income turned negative for the first time since 1984, falling 1.6% at the end of 2003 to -0.1% in the first quarter of 2006."

2.7.11 DEBT

Prinsloo (2000: 21) defines dissaving as occurring when current expenditure exceeds current income. Debt is the realisation of the growing level of dissaving occurring in South African households. Financial liberalisation has opened up the financial markets to all individuals and given access to credit to households across a broad income spectrum. Prinsloo (2000: 20) states that the improved access to credit facilities and financial liberalisation has brought about an increase in consumer debt.

Prinsloo (2000: 21) identifies the ratio of consumer debt to personal disposable income during the 1990s as rising to a high of 62.1% in 1997, before declining to 58.6% in 1999. This was on average 10 percentage points higher than in the late 1980s. Manuel (2011, paragraph 4) states that there are 18.84 million credit active people in South Africa, with roughly 8.8 million being described as having impaired credit. According to Manuel (2011, paragraph 8) this is the reason that households find themselves in a debt trap. People are spending money they do not yet have, and they are spending it on goods they do not need. South Africa's low culture of savings has meant that people are unable to afford to purchase goods for cash and therefore resort to purchasing on credit.

Figure 2.16 illustrates the decline in the household savings rate from 1980 until 1984 and mirrors this with the growth in access to credit over the same period. Prinsloo (2000: 21) states that although it is difficult to quantify the effects of financial deregulation on household's savings, he is of the opinion that deregulation has contributed to the rise in bad debts and also lower rates of households saving.

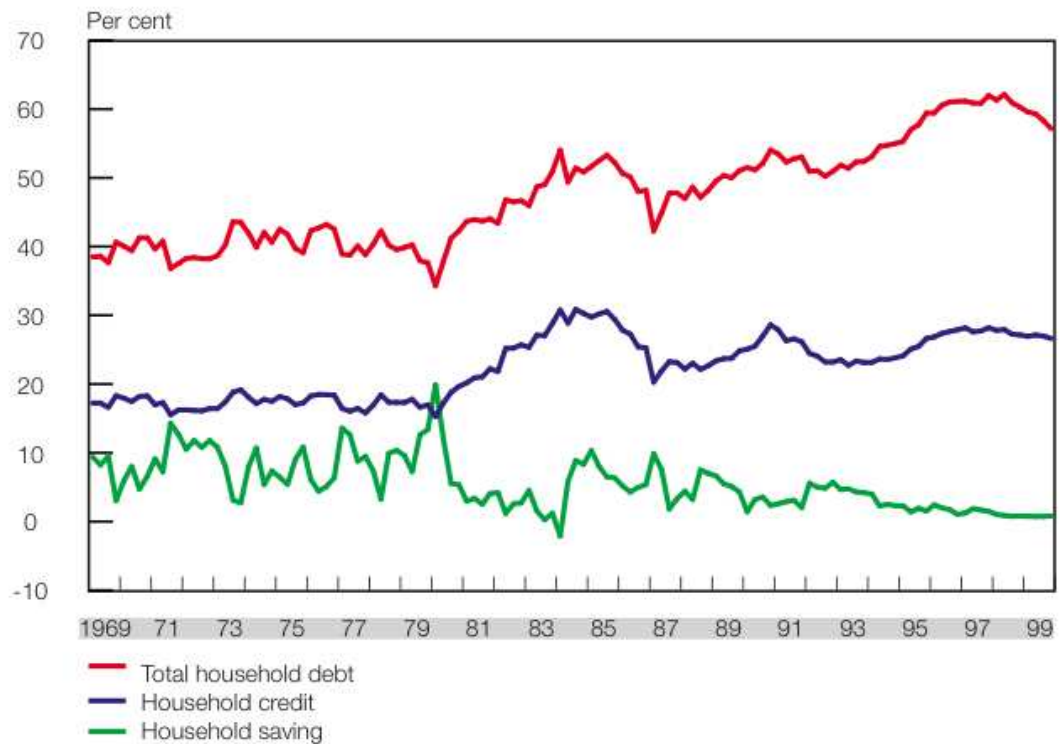


Figure 2.16: Household debt and household saving as percentage of household's disposable income from 1969 to 1999.

Source: Prinsloo, 2000: 21.

Macroeconomic and socioeconomic factors have been identified as contributing factors to an increased need for access to credit. South Africa's re-emergence into the global market post apartheid has led to increased consumer confidence with increased levels of spending and borrowing. Prinsloo (2000: 23) identifies an increase in credit facilities, such as credit cards and in-store credit; aggressive marketing by credit providers and easy access to credit as factors influencing credit purchases.

2.7.12 ECONOMIC GROWTH

Rodrik (2000) in Harjes and Ricci (2005: 60) establishes a positive correlation between economic growth and savings. Rodrik further adds that income growth booms have resulted in a permanent increase in savings rates, whereas positive shifts in savings resulted in temporary increases in economic growth. Harjes and Ricci (2005: 60) state that economic growth and resultant commodity price increases have been one of the major factors in affecting private savings over the past 20 years. Deaton (1999), in Harjes and Ricci (2005: 61) show in an empirical study on the correlation between savings and growth that the correlation between growth and savings is as a result of the growth response to investment. Aron and Muellbauer (2000: 509) state in their article on personal and corporate saving in South Africa that the low domestic savings rates in South Africa may not only hinder investment-driven growth in the medium term, but may also perpetuate a low-growth trap.

Strydom (2007: 4) links economic growth to that of a positive savings behaviour and explains that as the economy grows, so too does household contributions to savings. Prinsloo (2000) in Cronje (2009: 54) states that the weakening of GDP will have an inversely proportional positive effect on household savings, due to low-income growth and potential lack of job security during the recession. Conversely, during economic growth, Prinsloo (2000: 13) states that households are more likely to increase their consumption rates and spending behaviours.

Du Plessis (2008: 6) explains that saving acts as a stimulant for economic growth and cites Mikesell and Zinzer (1973: 1) in du Plessis (2008: 6) who regard savings as a key indicator for economic growth. Du Plessis (2008: 6) also makes reference to Modigliani (1986: 297) who states: '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 labour and its growth over time.'

2.8 MEASURES TO IMPROVE HOUSEHOLD SAVINGS IN SOUTH AFRICA

Measures to improve household savings in South Africa have previously been identified by numerous academics. Due to savings occurring across three tiers; namely government, corporate and household saving, the literature will look to identify what each sector is contributing towards household savings.

2.8.1 GOVERNMENT MEASURES

Howard (2001) in Manyama (2007: 70) believes that a function of government is to assist in stabilising markets through policy intervention. Asilis and Ghosh (2002) as cited in Manyama (2007: 70) adds to this point by stating that it is the purpose of government to introduce policies which are better able to grow and stimulate the economy out of positions of low growth. Manyama (2007: 70) highlights the introduction by government of Retail bonds which are aimed at stimulating personal savings investment. The retail bond attracts fixed interest over the term with a minimum investment amount from R1000 to R1000 000. The bonds offer an attractive investment by the South African government in that there are no charges, commissions or costs levied on the investment made. Manyama found that this investment is not effectively targeted at households due to the minimum investment amount which Manyama believes to be out of reach to the majority of South Africa's poor population.

In figure 2.17, Manyama (2007) validates her argument by stating that over 53% of investments made towards the retail bonds are greater than R10 000 in value. Manyama is therefore of the opinion that government could better target households saving through the lowering of the minimum investment amounts into retail bonds.



Figure 2.17: Distribution of investors per amount category.

Source: RSA Retail Bonds, 2007.

Manyama (2007: 72) believes that government should also investigate banking practises in South Africa, specifically the high cost of banking charges being levied on consumers. Furthermore, Manyama states that the lowering of banking costs will result in higher discretionary savings for the ordinary consumer.

Government reform through mandatory pension fund contributions have also been suggested by Manyama (2007: 72); which she believes will help contribute to contractual savings. Jackson (2010, paragraph 3) cites Danie van Zyl, head of Guaranteed Investments for Sanlam Employee Benefits (SEB) as saying that people need to save 15% of their salaries for 35 years in order to have sufficient savings in place for retirement. Currently government offer tax incentives to households that contribute towards retirement savings. Whilst this is a positive contribution towards household savings in South Africa, Cronje (2009: 100) believes that this incentive is better suited to higher income individuals.

Du Plessis (2008: 108) contributes further to this by stating that her research indicated a number of participants that proposed a compulsory savings contribution by South African households. Jackson (2010, paragraph 9) cites

Van Zyl, who states that Australia has implemented a compulsory savings contribution and suggests that South Africa should follow suit in an effort to improve household savings contributions. Du Plessis discovered that while 50% of the respondents supported the idea of government intervention for the introduction of compulsory savings; the remaining 50% of respondents stated that government should avoid the '*big brother*' role and rather focus on initiatives designed to stimulate growth and development, which potentially have the resultant effect on positive savings growth.

Du Plessis (200: 111) further adds that her research suggests that government should look to utilise fiscal tools as a measure to encourage and incentivise household savings. Manyama (2007: 72) proposes a government intervention on tax levied on interest income and suggests that government raise the tax threshold on interest earned or potentially scrapping the tax altogether. Cronje (2009: 101) states that government should look to boosting tax incentives to households that will reward contributions and ultimately encourage savings.

Nhabinde and Schoeman (2008: 8) in Cronje (2009: 100) found that the government imposed tax on retirement benefits has reduced consumer confidence in retirement plans and further contributed to a decline in national savings levels. ABSA economists (2007) as cited by Manyama (2007: 73) propose an abolition on tax on retirement funds and the dropping of secondary tax on companies. ABSA state that the abolishment of secondary tax will assist in simplifying corporate tax and effectively reducing the corporate tax burden.

2.8.2 CORPORATE MEASURES

Corporations and industry bodies have a crucial role to play in assisting the implementation of government policy and for assisting in establishing improved savings across South Africa. SASI is dedicated to the delivery and development of savings programs that are designed to encourage growth in the level and rate of saving in South Africa. SASI was established in 2001 with the vision of

establishing a vibrant savings culture in South Africa through sustainable economic growth and the creation of a financially literate population (SASI, 2010). SASI are involved in promoting participation amongst organisations and institutions to help promote household savings. SASI are also tasked with promoting the development of a culture of savings through education and the dissemination of information to ordinary South Africans. SASI also participate with government to establish an economic climate favourable to a culture of saving. SASI conduct savings research to advise consumers and government on saving habits and patterns. SASI are also influential in promoting the savings through a variety of awareness campaigns such as July savings month (SASI, 2010).

Du Plessis (2008: 108) raises the argument for compulsory savings contributions as a measure to positively influence household savings in South Africa. Du Plessis (2008: 109) found that half of the research respondents were in favour of the proposal whilst the remaining half were opposed to the proposal due to concerns that the government should rather focus on economic growth and development. Corporates could contribute to the cause through the introduction of compulsory savings measures at the workplace. This would have the positive effect of improving households saving contributions, whilst allowing government to focus on economic development and policies.

Measures to improve saving takes place through the use of both formal and informal institutions to provide access to savings facilities. In the formal sector, South Africa's banking sector is recognised as being world class and ranks amongst the top banks internationally. This is due to its skilled workforce, sufficient capital, solid infrastructure and technology and banking regulations (Nga, 2007: 13). The rise of financial liberalisation has brought about greater access to formal financial institutions and a move away from the informal sector. The informal sector has always been traditionally popular amongst low-income earners, particularly black households as a measure to saving. This sector is represented by '*stokvels*' which are still popular amongst low-income households many years into the new South African democracy (Nga, 2007: 16).

Stokvels are widely recognised as informal savings institutions that provide savings facilities to members who make a specified monthly contribution, with access to lump-sum withdrawals on a rotating basis (Nga, 2007: 16).

2.8.3 HOUSEHOLD MEASURES

Measures by households are the final key to assisting personal saving amongst South African households. Du Plessis (2008: 108) identifies education as a key area of improvement by South African households to measurably improve household savings. Du Plessis found that her research identifies a number of participants who highlight the importance of education in positively affecting the savings behaviour of households. Cronje (2009: 101) believes that individuals should look to enrol in financial education programs (which Cronje proposes should be provided by government to address savings) as a means to improving households educational awareness of the benefits and necessities of adequate savings contributions. The role of saving should be encouraged from an early age (SASI, 2010) and Nga (2007: 24) makes mention of the historical use of Postbank to promote savings amongst children in the 1950s, where children were encouraged to save at the post office.

SASI has also made great inroads in promoting savings measures through their “teach children to save” and “varsity financial literacy” campaigns. These campaigns aim to promote the concept of personal saving from a young age. SASI pioneered this education campaign in 2008 under the slogan: “*ligotswa lisase manzi*”, which is a Zulu idiom meaning, “*if you want to bend a stick, you must do so while it is still moist.*” Through their savings education programmes, SASI have created savings workbooks for schools to introduce and educate school kids. SASI through their campaigns aim to promote increased personal saving, greater financial literacy and aim to grow and develop a culture of saving.

2.9 CONCLUSION

In summary, Harjes and Ricci (2005: 53) explain that there is still insufficient information on the subject of saving and this sentiment is echoed to savings contributions of South African households. The subject of saving has been defined with a view to understanding the greater concept of saving. Investigations into household savings have shown a downward trend in household savings contributions. The declining trend has raised concern from financial contributors such as Greenblo (2011) who states that the lack of a savings culture and contributions towards savings is dismal. It is with this view that the researcher identified the importance of saving and the effect it has on households and the economy. This chapter discussed three theoretical models of saving and the factors affecting savings behaviour with households response to such factors. Whilst income and consumption have been considered important factors affecting household savings, the researcher sought to identify further factors that affect household savings. Each factor has a resultant effect on household savings, however, the effect on savings is felt greatest as a result of a combination of the factors. The literature review ends on identifying the three key measures to improving household savings contributions. The researcher has identified that savings contributions are best affected through the inputs of government, corporates and individuals. It is a collaboration of these three parties that will ultimately result in efficient household savings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The purpose of this chapter is to detail the research methodology and data collection strategies utilised in the study. The research design chosen, was done so with a view to providing answers to identifying measures to improve savings in South African households. A critical review of household savings literature was conducted in chapter two using secondary data in order to examine household savings in South Africa and to identify factors affecting household savings as well as establishing measures to improve household savings. This literature review has helped shape the foundations for the research study. A qualitative research design approach has been chosen as the preferred method of research.

3.2 AIM AND OBJECTIVES OF THE STUDY

The aim of the study is to identify measures to improve savings in South African households. Harjes and Ricci (2005, 53) further confirm the need for a study on savings, when stating that although there were gains in understanding consumer consumption and savings behaviours, there was no significant model to accurately identify the factors affecting saving. This identifies a gap in the research which the researcher believes to be significant and therefore warrants further investigation.

The objectives for this study are therefore to:

- Examine household savings in South Africa
- Identify factors affecting household savings in South Africa
- Interview leading South African economists to gain insight on their perceptions of household savings

- Evaluate differences between current savings measures and those identified in the interview
- Identify measures to improve household savings

The research methodology therefore seeks to address these objectives through the use of a qualitative study, and interview of leading economists and financial experts.

3.3 PARTICIPANTS IN THE STUDY

This study focuses on the savings behaviour of South African households and therefore counts the population sample as the gross population of South African households. Due to the size and nature of such an undertaking, this would far exceed the scope and resources available for this study. This study therefore chooses to focus the research process on industry experts who have established a significant amount of knowledge and experience in the field of Finance and Economics. Participants were chosen through a combination of judgment sampling and snowball sampling methods. The literature review helped identify key individuals involved in the field of savings who have contributed significant bodies of work towards the subject of savings in South Africa. A sample of 13 leading economists and financial experts were approached with ten respondents agreeing to participate in the study. Table 3.1 shows the list of respondents approached.

Table 3.1: List of respondents

NAME	POSITION	CONSENT TO PARTICIPATION	CONSENT TO USE OF RESPONDENTS NAME AND COMPANY NAME
Mr. Allan Greenblo	Editorial director of Total Trust and former M.D. of Business Day and Financial Mail	Yes	Yes
Economist 1	Former senior economist at the SARB and member of the SARB research department.	Yes	No
Mr. Kabous le Roux	Financial Columnist	Yes	Yes
Mr. Eric Scheepers	Standard Bank financial advisor and CFP associate	Yes	Yes
Mr. Colen Garrow	Chief economist at the Brait Group	Yes	Yes
Mr. Schalk Visser	M.D. of AEW Investments, Europe.	Yes	Yes
Mr. Elias Masilela	Chairman of the South African Savings Institute	Yes	Yes
Economist 2	Chief Executive Officer of a leading South African Insurance and Financial Services provider.	Yes	No

Mr. Harold Wagner	Senior economist at SARB	Yes	Yes
Mr. Oladumola Duradola	Finance and Investment Management lecturer at UKZN	Yes	Yes

The respondents are involved across the greater spectrum of financial services and economics; however the leading common denominator amongst respondents is their ability to comment and provide expert opinion on the subject of savings.

The ten respondents approached were initially identified through their literary contributions on the subject in question. Whilst further respondents were contacted as a result of snowball sampling from leads provided by the existing respondents relationships. The sample of respondents represent a diverse demographic and their field of expertise remain seated in finance and economics. It must be stated that the respondents do not fully encompass the fields of finance and economics; the diversity of the given respondents reflects a broad base of opinions, experience, knowledge, age, culture and backgrounds.

The respondents were questioned on their opinions of the existing literature regarding factors affecting household savings, as well as which measures they believe can improve savings in South African households. The location of the study only considers households within the South African borders. Due to the geographic location of the respondents, the research has been conducted both telephonically and through electronic mail. Interviews were conducted telephonically in order to pre-test and validate the respondents and this was then followed up with a structured questionnaire.

3.4 DATA COLLECTION STRATEGIES

Polonsky and Waller (2011: 127) state that, “Unless you gather the right data, there is no way you can fully answer your research problem.” The collection of data for the process of research is an instrumental step in successfully meeting the research requirements. The type of methods chosen to collect data will have a significant impact on how the research is undertaken, as well as influencing factors such as time and money (Polonsky and Waller, 2011: 127). There are varying ways in which to gather data, with each method having differing strengths and weaknesses. The objective of this research study is to select the research method that is best suited to the study at hand.

3.5 PRIMARY VERSUS SECONDARY DATA

There are two main types of data, namely primary and secondary data.

Malhotra *et al.* (2006) in Polonsky and Waller (2011: 134) state that primary data is data specifically generated for the purpose of the research problem and is aimed at addressing the research questions. Primary data can be broken down into quantitative and qualitative data sources.

Malhotra *et al.* (2006) in Polonsky and Waller (2011: 131) state that secondary data is information that has already been collected for some purpose other than the research problem at hand. Polonsky and Waller (2011: 131) go further to state that the value of secondary data is significant in that it is able to assist in addressing the research problem at a more cost-effective or timely manner. The downside to this is that the secondary data may not always address the problem at hand or may be outdated in its accuracy. (Polonsky and Waller, 2011: 131).

For the purpose of the research, external secondary data was utilised to identify current literature on the subject of savings in South African households. Use

was made of published material in the financial sector, online sources and syndicated sources of data. When evaluating the secondary data, it became evident that there is a dearth of information on the topic of saving in South African households. This sentiment is echoed by Laubscher (2006: 4) who states that this points to an absence of a savings culture in South Africa.

3.6 QUANTITATIVE VERSUS QUALITATIVE

Primary data sources can be either quantitative or qualitative in design, and based on the literature, a qualitative method has been selected to gather data on the research topic. Polonsky and Waller (2011: 134) state that qualitative research methods utilise a small number of respondents to provide intrinsic information on their thoughts, motivations and attitudes of members who comprise the sample group.

Data collection for this research project has been collected through an extensive review of literature, followed by semi-structured interviews and a structured questionnaire with leading industry experts. The process of data collection has been conducted through the use of Preliminary Information Gathering (Sekaran, 1992: 17). Telephonic interviews and e-mail correspondence were conducted with respondents; the interviews were semi-structured to allow respondents to discuss the topic matter at will. Sekaran (2002) advises the use of semi-structured interviews to discuss informally with respondents, gathering information on the topic in question. Sekaran (2002: 33) states that the use of semi-structured interviews, structured interviews and library research help the researcher define the problem more specifically and evolve a theory delineating possible variables that might influence the problem.

The researcher undertook pre-testing and validation by initially interviewing respondents to gauge their level of knowledge and understanding of the topic in question. A semi-structured interview identified the respondent's opinions on the subject of household savings, and did so with the aim to minimalise the

respondent's bias and feedback. This process allowed the researcher the ability to identify and highlight specific areas of interest that would be later singled out for further study in the semi-structured questionnaire.

3.7 SAMPLE MEAN AND STANDARD DEVIATION

Statistical data is useful in collecting a central location or value of data in order to generate useful information that assists in quantifying as to where the observations are concentrated. This is often referred to as the measures of central location. The arithmetic mean is defined as:

$$x = \frac{\text{the sum of all observations}}{\text{the number of observations.}}$$

The arithmetic mean uses every value of the data set in its calculation. The researcher has selected a sample of the population and has calculated the sample mean from responses collected for question three (Wegner, 1995: 92).

Mean calculations have a weakness in that the mean uses every value in the sample or population. If a few of the values are extreme in value, i.e. either very high or very low compared to the majority, then the mean value may not be the best path to determining the data averages. Standard deviation is used to identify the deviations from the mean. Standard deviation is the statistical measure which expresses the average deviation above the mean in the original units of the random variables (Wegner, 1995: 92). Standard deviation is used to identify how deviations are spread about the mean. If the distribution is normal and the distribution plot is roughly symmetrical and bell-shaped then 68% of all the observations will fall within the range of one standard deviation above the mean. A low standard deviation means that the observations fall very close to the mean (Wegner, 1995: 93). Should the deviation grow to two deviations above or below the mean, then 95,5% of all observations will fall within this range. Three deviations from the mean will include 99% of all observations.

3.8 RESEARCH DESIGN AND METHODS

3.8.1 DESCRIPTION AND PURPOSE

A literature review has been conducted to better understand the problem of savings and factors affecting household savings in South Africa. A literature review helped build a significant base of knowledge on the subject in question. Du Plessis (2008: 49) states in contrast that a literature review is not able to accurately assimilate all the relevant factors affecting household savings and therefore does not necessarily result in true distillation of requirements of the study.

3.8.2 QUALITATIVE METHODS

The research methodology being employed is determined by the research question being examined Polonsky and Waller (2011: 148). The research methodology has been designed to employ qualitative as opposed to quantitative methods to determine measures to improving savings in South African households.

Wisker (2001: 137) states that qualitative research methods focus more on the diverse aspects of human behaviour than that of quantifiable data. De Ruyter and Scholl (1998: 7- 14) states that qualitative research helps understand the way people think about a certain subject. This study benefits from focusing on a small sample of leading economic experts. Mouton (2008: 37) states that the qualitative research approach is utilised with a view to answering questions about the cause of the problems with the purpose of describing and understanding the problems from different points of view. Healey and Rawlinson (1994: 123 - 145) state that qualitative data research is based on the expression of meanings through words. The collection of these results are categorized into non-standardised data that requires classification into categories. Thereafter analysis of the data is undertaken through the use of

conceptualization. Polonsky and Waller (2011: 134) state that a shortcoming of the qualitative research process is that the data analysis is based on a small number of respondents and results cannot always be generalised to the entire population.

3.8.3 QUANTITATIVE METHODS

Quantitative research methods involves data analysis stemming from a collection of data from a large number of respondents (Polonsky and Waller, 2011: 135). Page and Meyer (2000) found that data generated utilising quantitative methods can be used to present a sample of a population utilising various statistical techniques. Quantitative methods studies the results of the quantitative analysis through statistical theory and mathematical calculations and then generates information that is valuable and is identifiable to the population at hand (Polonsky and Waller, 2011: 167).

Polonsky and Waller (2011: 136) state that the use of quantitative research methods aims to recommend a course of action; which is either causal or descriptive. The decision to employ a qualitative approach stems from the need to interview industry experts to understand their views on the factors affecting savings in South African households. The aim is to identify measures to improve savings in South African households. The research methodology is not aimed at testing a hypotheses, but rather is utilised to identify measures to improve savings in South African households.

The research has followed the approach of a semi-structured interview with leading industry experts in the field of financial services and economics. These interviews have helped identify specific areas of interest that were followed up on in the form of a structured questionnaire (see appendix 1).

3.8.4 RECRUITMENT OF STUDY PARTICIPANTS

When collecting primary data, it is necessary to identify a sample of the population. Due to the limitations of surveying an entire population, i.e. time and money, a sample is taken in order to obtain data about the relevant population. According to Polonsky and Waller (2011: 139) a sample is a subgroup of a population that is taken as a representative unit of the target population. There are two types of sampling methods, namely probability sampling and non-probability sampling.

3.8.5 PROBABILITY SAMPLING

Probability sampling is a sampling technique in which each member of a population has the very same chance of sample selection as the next member (Polonsky and Waller, 2011: 140). Due to the nature of the study being conducted this sampling technique was not chosen.

3.8.6 NON-PROBABILITY SAMPLING

Non-probability sampling is a sampling technique that makes use of personal judgement by the researcher as a method of selection to identify candidates for the prospective sample. The recruitment of participants for the research study took place using non-probability sampling. Maylor and Blackmon (2005: 195) state that non-probability sampling technique systematically or purposely selects the sample. Sekaran (1992: 235) states that in non-probability sampling designs, there are no probabilities attached to elements of the population being chosen as sampling subjects. Due to this the findings from this study cannot be confidently generalized to that of the population (Sekaran, 1992: 235).

Participants in the study were recruited through the use of non-probability sampling specifically utilising the judgemental sampling as well as snowball

sampling techniques. Polonsky and Waller (2011: 140) state that judgement sampling relies on the judgement of the researcher to select respondents from the population based on the researchers selection criteria. Judgement samples can therefore be selectively controlled and selected according to specialist characteristics. The benefits of such a technique is that it is convenient and consumes low time and costs. A weakness of judgment sampling is that it is subjective and does not allow for generalisation in the population group. Snowball sampling techniques were also identified as a sample selection technique as the research methodology aims to deal with industry experts and individuals that were considered for the sample group were also asked to provide referrals of other respondents. Polonsky and Waller (2011: 140) state that snowball sampling relies on the initial sample respondents providing referrals of other potential respondents with similar characteristics such as themselves for the purpose of the research.

The literature review has helped identify key contributors employed within the finance and economic sectors who have contributed significant bodies of work towards the subject of savings in South Africa. Several authors indentified in the literature review were approached based on their contributions and were asked to become participants in the study. The very same respondents were also asked to provide referrals to other respondents who fell within similar backgrounds or fields of employ.

3.8.7 PRETESTING AND VALIDATION

Saunders *et al.* state that that the issue of sample size in qualitative research is ambiguous, and that in comparison with quota and probability samples, there are fewer rules. Patton (2002) adds that the validity and understanding obtained from collected data will be of greater significance due to analysis skills and data collection than due to the size of the sample. The interview questions were pretested by a financial services provider. Key individuals were presented the questionnaire and asked to comment on their opinions of the relevance of the

research under construction. The questionnaire was further submitted to the subject supervisor for clearance on suitability and appropriateness. The questionnaire was further fine-tuned to better address the topic in question.

3.8.8 ADMINISTRATION AND QUESTIONNAIRE

The questionnaire was sent to each respondent electronically via e-mail. This was done due to the geographical locations of respondents. Enclosed with the questionnaire was a letter of consent, and an option to remain anonymous should the respondent so wish. The questionnaire utilised in the interviews is presented in table 3.2 below.

Table 3.2 RESEARCH QUESTIONNAIRE PRESENTED TO RESPONDENTS

1. What do you identify as the main factors affecting household savings in South Africa?

--

2. Why are South African households not saving enough?

--

3. Rate the effect each of the following factors have on household savings in South Africa (with 10 having the greatest effect on the relevant factor and 1 having no effect)

	1	2	3	4	5	6	7	8	9	10	<i>Please explain or comment.</i>
<i>Financial literacy</i>											
<i>Education</i>											
<i>Financial liberalization (Access to credit and financial services)</i>											
<i>Budgeting</i>											
<i>Income levels</i>											
<i>Culture</i>											

respective fields, the answers provided are their personal opinions and do not necessarily represent all South African households. Experts were sent questionnaires in lieu of a large, costly sample of the population of South African households.

- Researchers bias was reduced through the use of a questionnaire.

3.10 SUMMARY

Chapter three seeks to outline the aims and objectives of the study, the participants and location of the study, data collection strategies and research design methods. The data collection strategies used was a qualitative approach utilising semi-structured interviews and a structured questionnaire. 13 leading economists were approached with ten respondents choosing to respond. The data collection strategies outlines the questionnaire designed to collect primary data from respondents on the research topic. The data gathered as a result of the completed questionnaires will be presented in chapter four.

CHAPTER FOUR

PRESENTATION OF QUESTIONNAIRE DATA

4.1 INTRODUCTION

This chapter sets out to present the data gathered from the semi-structured interviews and structured questionnaires presented to leading industry experts for response. The gathered data seeks to provide answers to the questions set out in chapter three and therefore identify measure to improve savings in South African households. The responses have been re-written by the author as a narrative interpretation. A narrative style was chosen by the author to assist in creating a flow from the responses from one question to the next. The full list of responses are available in the appendix, questions one to seven. The data collected from the questionnaires is collated and presented per respondent. An analysis and discussion of the data is to be conducted in chapter five. The letters of informed consent were signed by all respondents and is available on request.

4.2 RESPONDENT 1:ALLAN GREENBLO

Greenblo is a respected financial columnist and has performed the duties of managing director for both the Business Day and Financial Mail editorials. Currently Mr. Greenblo is the editorial director of Total Trust. Greenblo's savings editorial, titled: "lack of savings culture remains a national malaise," drew attention to the topic of the savings crisis within South African households. Greenblo identifies the lack of a savings culture as a key factor affecting household saving and cited the high cost of living as a reason why South Africans are not saving enough. Greenblo states that there are insufficient funds remaining due to this high cost of living and that he believes there is a belief amongst households that the state would provide assistance to struggling households.

Greenblo believes that pension fund preservation should be made mandatory as a key measure in positively influencing household savings. In response to the role that Government can play in improving household savings, Greenblo is of the opinion that Government should set a much better example through their own spending programs. Business and the private sector were singled out by Greenblo as being required to improve consumer financial education in their role in improving household savings. Greenblo however believes that it is up to individuals to budget properly and make savings a priority in order to improve their own personal household savings. In response to a rating scale of existing factors affecting household savings, Greenblo recorded the following degrees of effect, with ten having the greatest effect on the relevant factor and one having no effect.

Table 4.1: Factors affecting household savings: respondent 1 – Allan Greenblo
 Respondents rated the effect each of the following factors have on household savings in South Africa (with 10 having the greatest effect on the relevant factor and 1 having no effect).

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy								X			
Education								X			Greenblo states that even though education has a great effect on the household savings, he is of the opinion that even the better educated and more affluent members of society are not saving enough.
Financial liberalization (Access to credit and financial services)								X			Greenblo states that in his opinion, credit has been over-extended in South Africa, not only by banks, but also by retailers and he identifies this as a factor greatly effecting household savings.
Budgeting									X		
Income levels		X									
Culture										X	
HIV/AIDS									X		
Government monetary policy									X		
Interest rates									X		
Consumerism									X		
Debt									X		
Economic Growth									X		

Table 4.1 identified the factors in the literature review. Greenblo agreed to the majority of the factors. Greenblo scored financial literacy, education and financial liberalization as factors he greatly believed had an effect on household savings 8/10. Greenblo however disagreed with income as a factor affecting household savings and subsequently scored this factor 2/10. Greenblo reserved the highest influence for the role of culture in it's ability to effect household savings in South Africa, scoring this factor 10/10. Greenblo placed a great emphasis 9/10 on the remaining factors of HIV/Aids, Government Monetary Policy, Interest Rates, Consumerism, Debt and Economic growth; and Greenblo therefore concurs with the factors identified in the literature review. Greenblo however strongly disagrees with the effect income has on household savings in South Africa and rates this only 2/10.

4.3 RESPONDENT 2: ECONOMIST 1 – ANONYMITY REQUESTED

The second respondent shall be referred to as Economist 1. Economist 1 is a former senior economist at the South African Reserve Bank and was an active member of the research department. Economist 1 has made significant contributions to the debate on savings in South Africa and is therefore suitably qualified to provide expert opinion on the matter of measures to improve household savings.

Economist 1 identified the following main factors affecting household savings as:

- Low to negative real after tax rates on returns;
- Demographic variables;
- Wealth effect;
- Interest rates;
- High unemployment.

When questioned on the reasons for South African households not saving enough, Economist one stated that this was due to a combination of factors stated above as well as the countries lack of education. Economist 1 also

pointed to the South African government not creating a conducive environment to encourage household savings.

In suggesting measures to positively influence household savings, Economist 1 stated that it is important to make the process of saving worthwhile. In other words, Economist 1 believes that saving should be further incentivised by government as the current economic environment with low to negative after tax returns does not sufficiently encourage households to contribute to savings. Economist 1 believes that the government should look to the current tax structure with a view to making changes that focus more on spending type taxes. Economist 1 believes government has a significant role to play in positively influencing household's savings, and should look to cut spending on intermediate goods and services. The government should also focus on rooting out corruption as this was a waste of taxpayer's money and negatively affected government spend. Economist 1 firmly believes that government needs to implement incentives for households to save.

When questioned on the role that business and the private sector could contribute towards household savings, Economist 1 stated that less government interference in the private economy would have the positive effect of creating further job opportunities in the private sector; which would be further conducive to improving household savings. When discussing what role of individuals could play in improving their personal savings Economist 1 stated that households should budget effectively to ensure greater contributions to savings. In response to a rating scale of existing factors affecting household savings, as seen in table 4.2, Economist 1 recorded the following degrees of effect.

Table 4.2: Factors affecting household savings: respondent 2 – Economist 1

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy								x			
Education										x	
Financial liberalization (Access to credit and financial services)								x			
Budgeting							x				
Income levels					x						
Culture								x			
HIV/AIDS			x								
Government monetary policy					x						
Interest rates								x			
Consumerism								x			
Debt							x				
Economic Growth							x				

4.4 RESPONDENT 3: ECONOMIST 2 – ANONYMITY REQUESTED

The third respondent, requested anonymity for himself as well as that of his organization. Economist 2 is currently the Chief Executive Officer for a leading South African Insurance and Financial Services provider and has extensive experience in the field of finance and insurance. Economist 2 is well positioned to comment on the subject of household savings, given his role in an organization that provides a savings platform for households and individuals to invest into. When interviewing Economist 2 on his perceptions of the savings crisis in South Africa, his comments and constructive views led to his nomination as an expert respondent.

Economist 2 states that the main factors affecting household savings are the lack of a savings culture and the fact that South Africa is becoming too much of a welfare state. Economist 2 adds that it is due to this lack of a savings culture

that has resulted in South Africans not saving enough. Tax incentives for saving are also indicated as being too low and are contributory to household's lack of saving. Economist 2 suggests that educating people and promoting a culture of saving and taking financial care of households are the positive measures that can be used to influence household savings. The Government could further contribute towards household savings improvement through the creation of jobs and promoting the concept of less of a welfare state. Economist 2 suggested government incentivise savings through the use of tax breaks to individuals to encourage and improve household savings.

When questioned on the role of business and the private sector in influencing household savings, Economist 2 stated that business and the private sector needed continued interaction and influence with the government on the importance of savings for households versus the alternative of the country becoming a semi-welfare state. Economist 2 stated that it is the responsibility of individuals to establish a culture of saving and taking responsibility for their continued future in the South African landscape.

In response to a rating scale of existing factors affecting household savings, Economist 2 recorded the following degrees of effect.

Table 4.3: Factors affecting household savings: respondent 3 – Economist 2

	1	2	3	4	5	6	7	8	9	10	Respondents comment	explanation	or
Financial literacy								X					
Education								X					
Financial liberalization (Access to credit and financial services)							X						
Budgeting						X							
Income levels									X				
Culture										X			
HIV/AIDS						X							

Government monetary policy					X							
Interest rates							X					
Consumerism									X			
Debt									X			
Economic Growth							X					

4.5 RESPONDENT 4: COLEN GARROW

Mr. Garrow is the Chief economist at Brait South Africa and a significant contributor in the field of economics and financial services in South Africa. Garrow has identified market conditions as the main factors affecting household savings. Garrow states that a weak labour market together with rising inflation, particularly that of food and energy has the greatest effect on household's ability to save. Garrow points to high levels of household debt (77% of household disposable income) and the high interest rates amongst the main factors affecting household savings. Garrow explains further that despite a 650 basis point drop in rates, at 5.5% the SARB's repo rate remains significantly higher than the near zero-rates in G3 markets. Garrow outlines the aforementioned factors as being the main determinants affecting household savings and that the LSM-3 income categories, who make up the majority of the South African population are the ones whose budgets are largely taken up by food expenses rather than contributions to savings.

Garrow states that the reason South Africans are not saving enough is due to wage increases that have not kept up with price increases in food and energy i.e. fuel and electricity. Garrow states that real wage growth has weakened in an environment where a number of price increases are prevalent, not only in food and energy, but also in administered prices, such as utilities and property tax. Electricity alone is up 25.8% in 2011, with further threats of price hikes as applications for increases are being brought before the regulator National

Energy Regulator of South Africa (NERSA). Garrow outlines the low income of South Africa's poor as a contributing factor to a lack of savings, and stated that in his opinion as households migrate further up the income ladder, in theory, so too should the greater shares of household income be diverted towards savings products.

Garrow also points to a weak labour market and the high unemployment rate of 24% as further reasoning to South Africa's lack of household's savings. Interestingly, Garrow outlines legacy issues, which precluded a large part of the population from purchasing assets prior to 1994. When questioned on the measures that should be take to positively influence household savings, Garrow focuses on the issue of job creation and employment. Steps should be taken to tackle high unemployment with plans such as the Industrial Action Plan (IPAP-2) and the New Growth Path (NGP); both of which aim to create some 2.5 million and 5 million jobs respectively by 2020. Whilst Garrow believes these figures are over-ambitious, he is of the opinion that people will only increase their marginal propensity to save in as far as they have a job, and are confident of keeping that job. Garrow states that the employment hurdle is one that will not be easily overcome due to the fact that some 71% of those unemployed in South Africa are black, female and between the ages of 16 to 34. The Harvard Treasury estimated that if SA had an unemployment rate comparable to that of its emerging market peers, some six million people would be employed.

Garrow believes that if this were the case, one could only imagine the impact it would have on savings. Garrow states that the government should provide tax incentives to encourage household savings, as well as savings products such as retail bonds that have an inflation-linked hedge. Garrow believes that business should provide payroll deductions for savings to help encourage savings amongst its employees. When questioned on the role of the individual to improve household savings, Garrow surmised that this was dependent on the income category that consumers fell into. This would dictate the extent to which diversification is encouraged through the use of domestic savings schemes

versus those kept offshore, particularly against a volatile and weakening South African exchange rate.

In response to a rating scale of existing factors affecting household savings, Garrow recorded the following degrees of effect, with 10 having the greatest effect on the relevant factor and 1 having the least effect.

Table 4.4: Factors affecting household savings: respondent 4 – Colen Garrow

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy								x			
Education								x			
Financial liberalization (Access to credit and financial services)									x		Banks are risk-averse in an environment such as the current one, and will loosen the credit taps only as far as improvements in GDP growth and the labour market allow them to. Theoretically, as consumers migrate from low to mid-LSMs, so to should too should consumer-buying power move from being cash-based, towards a greater credit-base. It's worth mentioning then that some 374 000 consumers migrated away from low LSMs towards mid-LSMs between 2009 and 2010.
Budgeting									x		Food accounts for 49% and savings 0.4% of low LSM budgets. In higher LSM brackets, the split is respectively 8% and 7%.
Income levels									x		Low LSM categories will apply portion of their budgets towards food, rather than savings products.
Culture				x							Stokvels are common amongst low LSM income groupings, particularly amongst the Black community.
HIV/AIDS			x								
Government monetary policy			x								Monetary policy is the preserve of the SA Reserve Bank, which operates autonomously of government interference.
Interest rates									x		High interest rates suggest more disposable income applied to servicing debt, away from purchasing savings products.
Consumerism					x						
Debt								X			Household debt remains at historically high levels, at 77% of household disposable income.
Economic Growth									x		GDP growth and the labour market.

4.6 RESPONDENT 5: ERIC SCHEEPERS

Scheepers is a registered CFP and active financial advisor at Standard Bank and specialises in the field of savings for individuals. Scheepers is therefore ideally placed to make comment on measures to improve savings in South African households.

Scheepers identifies education as one of three main factors affecting household savings, and states that the lack of education is a primary reason for households not saving enough. Scheepers states that education in the forms of savings education and financial literacy should be introduced as a life skill from the first grade in school. Financial literacy is a point Scheepers highlights as being “shocking, across the board, for all demographics,” and identifies this as a main factor. Lastly Scheepers identifies levels of income as a significant factor to save, and states that poor income levels and the high cost of basics makes it almost impossible to save.

When questioned on measures that should be taken to positively influence household savings, Scheepers re-iterated that education remains the key to unlocking savings for South African households. Scheepers is of the opinion that government should encourage savings and not tax interest on savings for individuals in their personal capacity. Scheepers states that individuals should budget effectively and not live above their means. Scheepers makes reference to the culture of instant gratification, instead of delaying a need as a means for individuals to try and improve their savings. Scheepers advises that individuals do not take on unnecessary debt such as credit cards or clothing accounts or regularly purchasing new vehicles. Scheepers response to a rating scale of existing factors affecting household savings is recorded in table 4.5 with 10 having the greatest effect on the relevant factor and 1 having the least effect.

Table 4.5: Factors affecting household savings: respondent 5 – Eric Scheepers

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy										X	We have a shocking financial literacy rate across the board (all demographics).
Education										X	This should be re-introduced from grade 1 as a life skill (financial literacy).
Financial liberalization (Access to credit and financial services)								X			People who are educated in the use of credit can never save. The high cost and access to credit are a massive problem.
Budgeting								X			Without budgeting, one tends to waste money.
Income levels										X	Poor income levels and high costs of basics make it impossible to save.
Culture					X						
HIV/AIDS										X	Not being able to work and putting an additional burden on others, reduces savings massively.
Government monetary policy								X			Government could do more to encourage saving, by abolishing tax on interest fir private individuals.
Interest rates				X							Interest rates should encourage savings.
Consumerism						X					Business is always trying to gain their share of your wallet.
Debt										X	Access to credit is too easy
Economic Growth							X				We need to stimulate growth, which can create jobs. In order to achieve this, a quality education is needed.

4.7 RESPONDENT 6: MR. HAROLD WAGNER

Mr. Harold Wagner is a senior economist at SARB and is involved in statistical research on the South African Economy. Wagner has outlined the following four key factors affecting household savings:

1. Income
2. Expenditure behaviour (propensity to save)
3. Tax rate
4. Unemployment.

Wagner is of the opinion that household's inability to save is due to the combined affect of the factors mentioned above. Wagner further points out the

emergence of a strong black middle class, whose spending behaviour is focused on accumulating non-financial assets (which he states has no long term asset value) and are caught up in living the good life without sufficient concern for their financial position or their future. Wagner believes that the emergence of the black middle class is indicative of financial liberalization, even though he denounces their current spending and savings trends. Wagner believes that if financial liberalization were to be used effectively, it could lead to investment in assets, which over time would contribute to savings. Currently, however, financial liberalisation and access to credit has led to increased consumption and a lower propensity to save. Financial literacy and education are both important measures identified by Wagner in helping the average household to understand the importance of saving and therefore rated this factor highly in it's ability to positively influence household savings.

In suggesting measures to improve household savings, Wagner suggests that monetary and fiscal policies need to be implemented that would have the effect of producing a stable economic environment and benign inflation. Wagner is also of the opinion that the tax rate of high earning households is too high in South Africa, and suggests a maximum tax bracket of 35% as opposed to 40%, which Wagner believes would improve savings behaviour of the wealthier households. In support of this point, Leon Campher (2011, telephonic interview), chairman of the Associated savings institutes of South Africa, stated that there is a common misconception that it is only the poor that are not saving. From the research that he had at his disposal, Campher stated that in fact, the lowest savings took place in the income groups upwards of R500 000 per annum.

Wagner believes that government can assist in improving household savings through the reduction of tax rates and provision of efficient services. This, he explained would assist in reducing expensive outlays on security and schooling. Wagner is of the opinion that the government should aim to stabilize the interest rates and exchange rates, which would ultimately lead to better economic growth and more income. Interest rates would have to be raised significantly

higher than inflation in order to motivate households to change their spending behaviour and become “savers”. Wagner stated that the economy and households were currently in a “catch-22” situation. In South Africa, economic growth is higher the more households spend and the less they save. If higher economic growth in the long run lifts employment substantially, economic growth may lead to improved savings rate for households.

Wagner stated that business and the private sector should aim to be as efficient as possible in its operations and therefore try to absorb some of the costs due to electricity and tolling. Individuals, stated Wagner, should aim to live within their means in an attempt to make sufficient provision for savings. Budgeting was, however, only a successful tool to saving if the necessary level of education and financial literacy was present. Budgeting, stated Wagner simply informed the individual of the financial dilemma of households. Wagner is of the opinion that a savings culture is an important factor affecting household savings and looks to the Asian cultures (India and China) who have a propensity to save. Wagner also made mention of the effect of HIV/Aids on the households ability to save and stated that the effect of HIV was that the disease devastated the workforce, lowering productivity; therefore resulting in a lower income over the persons lifespan. The more debt that households accumulated, the more difficult it became to save, except in the position whereby the debt was generated in the purchase of an asset which could be used to procure future income. Wagner therefore suggests that assets should be purchased with a view to the positive income role that they may play in the future. Wagner pointed out that volatility in the interest rates and exchange rates can adversely affect household savings even for those households who are better educated.

Table 4.6: Factors affecting household savings: respondent 6 – Harold Wagner

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy							x				Due to low financial literacy of the average household importance of saving is not fully understood.
Education							x				Same as above.
Financial liberalization (Access to credit and financial services)					x						If financial liberalization would lead to investment in assets or starting of small businesses it would contribute to savings in the long run, however access to credit leads to more consumption in most cases (low savings propensity).
Budgeting					x						Often budgeting just informs you of the financial dilemma households are in, and a certain level of education and financial literacy is needed to budget effectively.
Income levels								x			
Culture									x		The culture of the Asian countries propels them to save while the culture in the USA (before the financial crises) was expenditure driven, thus a very important factor.
HIV/AIDS							x				Devastates the productive work force, low productivity and low income over the persons lifespan.
Government monetary policy					x						Stability in interest and exchange rates leads to better economic growth and more income.
Interest rates							x				Interest rates must be higher than inflation by quite a margin before households will change their expenditure behaviour and become "savers".
Consumerism								x			Linked to the culture and the development phase a countries consumers are in – relates to q2 above.
Debt								x			The more debt the households have the more difficult it is to save, except when debt is used to earn future income, thus to purchase assets that are used to earn money (entrepreneurs).
Economic Growth					x						A catch 22 position. In SA economic growth is higher the more the households spend and the less they save. If higher economic growth in the long run lifts employment substantially economic growth may lead to improved savings rate for households.

4.8 RESPONDENT 7: MR. OLADAMOLA DURADOLA

Mr. Duradola is a Finance and Investment Management lecturer at University of Kwa-Zulu Natal (UKZN) and his expertise lies in the field of Investment Management. Duradola states that the main factors affecting household savings are subsistence expenses such as the petrol price and cultural expenses such as funeral costs, lobola and social expectations. Duradola is of the opinion that these factors are the reason as to why households are not saving enough. Duradola's view is that government should increase public awareness of the positive effect of savings as well as create incentives to stimulate household savings. An example suggested by Duradola would be that of a money-back scheme whereby government could match a percentage of savings contributions contributed by households, thereby furthering their savings contributions. Duradola suggested attaching a time limit for eligibility for withdrawal. Duradola believes business should create incentives at the place of work for employees to contribute towards savings. When discussing the role of the individual on the matter of saving, Duradola states that households need to practice budgeting and financial discipline in order to improve their household saving.

Table 4.7: Factors affecting household savings: respondent 7 – Oladumola Duradola

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy										10	
Education									9		
Financial liberalization (Access to credit and financial services)					5						I don't think there is a direct relationship between savings and access to credit
Budgeting										10	
Income levels										10	
Culture										10	
HIV/AIDS		2									
Government monetary									9		

individuals begin with a financial goal and set short, medium and long-term goals to assist in achieving the overall financial goal. Le Roux is a great advocate of the role of budgeting in actively saving and believes that budgeting helps account more accurately for finances.

Table 4.8: Factors affecting household savings: respondent – Kabous le Roux

	1	2	3	4	5	6	7	8	9	10	Respondents comment	explanation	or
Financial literacy							X						
Education					X								
Financial liberalization (Access to credit and financial services)				X									
Budgeting								X					
Income levels								X					
Culture									X				
HIV/AIDS						X							
Government monetary policy					X								
Interest rates						X							
Consumerism									X				
Debt								X					
Economic Growth						X							

4.10 RESPONDENT 9: MR. SCHALK VISSER

Visser cites the high cost of living in South Africa as a major factor affecting household's ability to save. Visser states that rising costs are exceeding the household's income levels and that this is leaving insufficient funds for saving at month end. Visser is also of the opinion that there is not a culture of saving in South Africa and those households are increasingly placing their retirement welfare reliance on their large family units.

Visser identifies education as having a great effect on household savings and states that understanding finance and its concepts will help educate households in financial planning. Visser states that financial liberalisation and access to credit is able to assist in creating savings through home ownership in the long term, however, he doesn't believe that having access to credit will influence short-term savings. Visser is of the opinion that utilising behavioural nudging is an innovative method to promote a culture of savings amongst South African households.

Visser believes that government should increase the use of tax incentives in a way that makes it cheap to save. Corporates can also contribute towards savings encouragement by reducing the costs of financial products and access to savings facilities. Visser believes that individuals should look to enforce a savings mechanism whereby a dedicated percentage of salary increases or future bonuses are automatically allocated to a low cost savings account.

Table 4.9: Factors affecting household savings: respondent 9 – Schalk Visser

	1	2	3	4	5	6	7	8	9	10	Respondents explanation or comment
Financial literacy							X				
Education								X			Understanding finance will be helpful.
Financial liberalization (Access to credit and financial services)					X						Homeownership provides access to credit and this is important as it contributes towards long-term wealth. I don't think having access to credit will assist savings in the short-term.
Budgeting										X	Most important
Income levels										X	Most important
Culture										X	Most important
HIV/AIDS					X						
Government monetary policy				X							At low-income levels, the absolute level of interest rates becomes irrelevant.
Interest rates						X					
Consumerism								X			There is a culture of buying unnecessary goods.
Debt								X			There is a growing culture of micro

												lenders and garnishee orders.
Economic Growth					X							I don't see a direct link.

4.11 RESPONDENT 10: MR. ELIAS MASILELA

Elias Masilela is the Chief Executive Officer (CEO) for SASI, the head of corporate affairs and retirement reform for Sanlam, a board member of the SARB and a trustee of the Government Employee Pension Fund (GEPF).

Masilela rates the following factors as the main reasons as to why he believes South Africans are not saving enough:

- Income levels;
- Lifestyles;
- Peer pressure;
- Rising administered prices;
- Rising dependencies;
- High unemployment;
- Access to credit.

Masilela states that he believes that measures to improve saving should be prescribed by law and that the government should be responsible for legislating and educating consumers on the benefits of saving. Masilela states that government should look to implementing policy that aims to provide economic growth and reduce dependency brought about by unemployment. Masilela singles out the private sector stating that business can assist with job creation in the economy, as well as provide facilities for direct deductions to savings vehicles for employees. Masilela also believes that the private sector should provide greater educational opportunities to factory floor workers. When discussing the role of the individual when contributing to saving, Masilela states that it is the responsibility of the individual to become financially literate and in doing so; budget their income more efficiently. Masilela believes that individuals must also commit to living within their means.

Table 4.10: Factors affecting household savings: respondent 10 – Elias

Masilela

	1	2	3	4	5	6	7	8	9	10	Respondents comment	explanation	or
Financial literacy									X				
Education					X								
Financial liberalization (Access to credit and financial services)									X				
Budgeting										X			
Income levels								X					
Culture									X				
HIV/AIDS									X				
Government monetary policy					X								
Interest rates					X								
Consumerism									X				
Debt									X				
Economic Growth							X						

4.12 CONCLUSION

Chapter four provides a collated narrative from respondents and is styled so as to include each respondents views laid out in a sequential format. The researcher chose to narrate the responses so as to ensure smoother reading of questionnaire responses. The original questionnaire and responses are available in the appendix 1.

The researcher has established several key factors identified by the respondents as factors affecting household savings in South Africa. The respondents identified the following key factors affecting household savings:

- Savings Culture;
- Income levels;
- Interest rates;
- Financial literacy;
- Education; and
- Consumerism.

These factors are further expanded upon in chapter five and discussed with a view to establishing measures to improve household savings.

CHAPTER FIVE

DISCUSSION

5.1 INTRODUCTION

This chapter sets out to discuss the findings of the responses collected through the questionnaire. The findings will be discussed in conjunction with the literature reviewed in chapter two with a view to establishing similarities and differences on the subject matter. In order to accurately identify measures to improve savings in South African households, an extensive review of literature surrounding household savings has been conducted. The qualitative analysis was conducted utilising semi-structured interviews and a structured questionnaire to help establish the views of leading economists to gain insight into measures to improving savings in South African households. The purpose of the semi-structured interview was to gather an understanding on the respondents experience and understanding on the subject matter and research topic in question. A further structured questionnaire followed the interview process with the results presented in chapter four. All responses are collated per question and discussed in conjunction with the theoretical literature on savings in South African households. The discussion aims to gather the experienced views of the contributing economists in an attempt to determine measures to improve savings in South African households.

5.2 THE MAIN FACTORS AFFECTING HOUSEHOLD SAVINGS IN SOUTH AFRICA, AS IDENTIFIED BY THE RESPONDENTS

The responses of the economists have identified a few key observations regarding their views on the main factors affecting household savings in South Africa. The responses to research question one have been tabled and are available in the appendices as appendix one. Question one has been designed to understand the individual economists views on what they identify as the main factors affecting household savings in South Africa. The question has been established to help identify further factors that may not have been previously

identified in the literature review. The responses obtained from leading economists in South Africa will be compared against the previously identified factors in chapter two. Question one will also incorporate appendix one to gauge the rating scale strength that each economist attaches to the identified factors.

Several of the respondents have identified one or more of the factors outlined in the literature review. What is interesting to note is the stance or degree of strength that each individual economist attaches to the relevant factor. Table 5.1 outlines the factors identified in the literature review and the extent to which the respondents believe the factors affect household savings. The respondents have rated their list of factors affecting household savings and these have been tabled to compare how all respondents have rated the factors. The responses have been averaged using the sample mean calculation to determine the mean for the sample responses per factor in table 5.1. This was done to understand the overall average by respondents with regard to the strength of the effect that each factor has on the effect of household savings. The factors were further rated for standard deviation to determine how the deviations are spread about the mean and are dispersed from the sample average (Wegner, 1995: 92). The deviations will help display whether the respondents deviate widely from the sample mean and as to how closely they rate the factors affecting household savings.

Table 5.1 includes the full set of responses from respondents, as outlined in appendix one, and details the level at which respondents rated the identified list of factors affecting household savings in South Africa.

Table 5.1: MAIN FACTORS AFFECTING HOUSEHOLD SAVINGS IN SOUTH AFRICA

Factors	Mr. Allan Greenblo	Economist 1	Mr. Kabous le Roux	Mr. Eric Scheepers	Mr. Colen Garrow	Mr. Schalk Visser	Mr. Elias Masilela	Economist 2	Mr. Harold Wagner	Mr. Oladumola Duradola	Mean	Standard Deviation
Financial Literacy	8	8	7	10	8	7	9	8	7	10	8,2	1,14
Education	8	10	5	10	8	8	5	8	7	9	7,8	1,75
Financial Liberalisation	8	8	4	8	9	5	9	7	5	5	6,8	1,87
Budgeting	9	7	8	8	9	10	10	6	5	10	8,2	1,75
Income levels	2	5	8	10	9	10	8	9	8	10	7,9	2,56
Savings Culture	10	8	9	5	4	10	9	10	9	10	8,4	2,17
HIV/AIDS	9	3	6	9	3	5	9	6	7	2	5,9	2,64
Government Monetary Policy	9	5	5	8	3	4	5	5	5	9	5,8	2,1
Interest Rates	9	8	6	4	9	6	5	7	7	9	7	1,76
Consumerism	9	8	9	6	5	8	9	9	8	10	8,1	1,52
Debt	9	7	8	10	8	8	9	9	8	9	8,5	0,85
Economic Growth	9	7	6	7	9	5	7	7	5	5	6,7	1,49

The factors outlined below are the key factors nominated by respondents in the questionnaire. These are separate to the list of factors identified and outlined by the researcher and displayed in the literature review. The factors selected are the individual factors raised by the respondents independently before being asked to rate the list of given factors by the researcher. The graphs graphically represent the responses from the economists and the mean response rating for each independent factor.

5.2.1 SAVINGS CULTURE

Greenblo, Masilela and Economist 2 identified a culture of savings as a main factor affecting household savings. Interestingly, Masilela outlines peer pressure and consumer lifestyles as part of the culture of savings that is missing in society today. In figure 5.1, Greenblo attached a 10 out of 10 importance rating to the subject of culture, Masilela gave culture a 9 out of 10 and Economist 2 attributed a 10 out of 10 for the importance of culture on household savings. The overall average amongst respondents is 8,4 out of 10. This high average is an indication of the level of importance attached to the culture of saving by the respondents and their view on its affect on household savings in South Africa. The standard deviation for savings culture is 2,17 which indicates that although there is a high mean of 8,4 out of 10. This indicates that responses are spread out over a larger range and do not lie closely to the mean. The researcher notes that two respondents responses can be considered outliers when viewed against the backdrop of the other responses. The researcher has identified a mean of 8,4 and if the mode rating scale was utilised, the mode would be 10. The outlier responses of 5 out of 10 and 4 out of 10 raise the standard deviation and lower the mean rating.

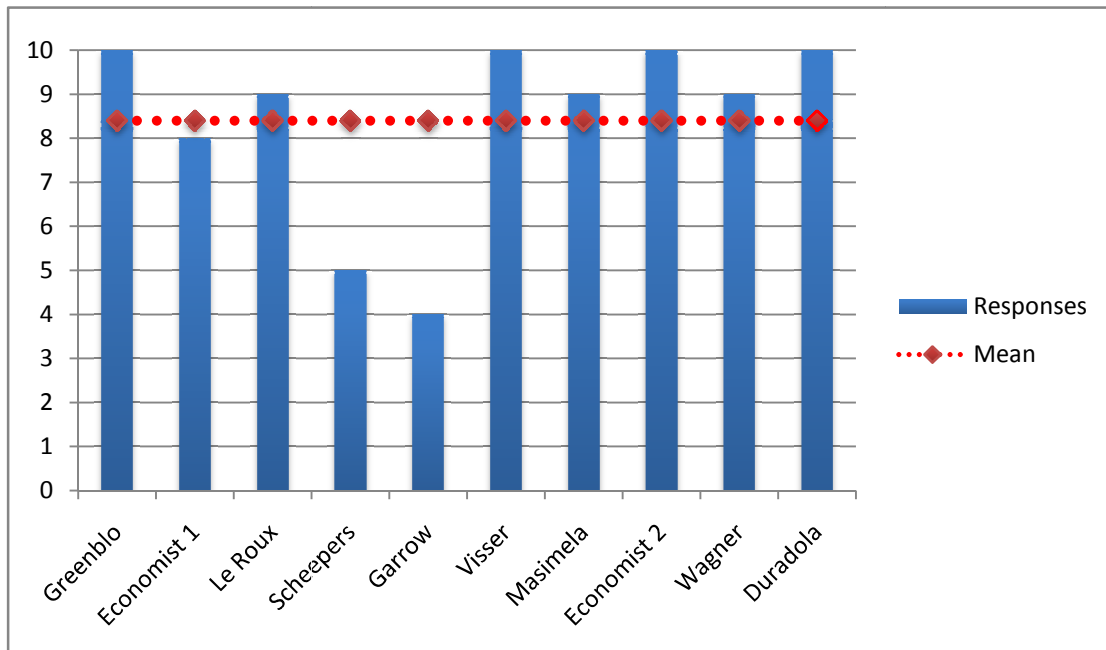


Figure 5.1: Savings Culture.

In the literature review, Stals (2001: 4) in du Plessis (2008: 31) states, “the propensity to save is part of the established culture of a nation.” This view is echoed by the respondents who have placed a high emphasis on the importance of a savings culture and its ability to positively influence household savings. Laubscher (2006) further adds to this, when stating that although rising debt and ensuing low savings can be attributed to financial deepening in South Africa, Laubscher is of the opinion that it is a greater reflection of a lack of a savings culture.

Therefore it can be said that a savings culture, as identified in the literature review and by means of the respondents, is a key factor affecting households ability of households to save. This is factor is important in that it will assist in forming part of a series of collaborative measures to help improve savings.

5.2.2 INCOME LEVELS

Economist 1, Scheepers, Visser, Masilela and Wagner identify income levels amongst households as a key factor affecting household savings in South

Africa. Keynes's Absolute Income Hypothesis and Friedman's Permanent Income Hypothesis (see section 2.6.1 and 2.6.2) have identified a positive relationship between an increase in income and the effect on savings. Du Plessis (2008: 3) is of the opinion that increased levels of income have had an increasing effect on the ability of households to save. Prinsloo (2000: 18) also confirms this point through his analysis that lower-income households are not saving enough. Prinsloo notes that higher income individuals contribute significantly more towards personal savings. It was noted in his findings that lower income households spent their income on basic needs, leaving little or nothing at all for savings contributions.

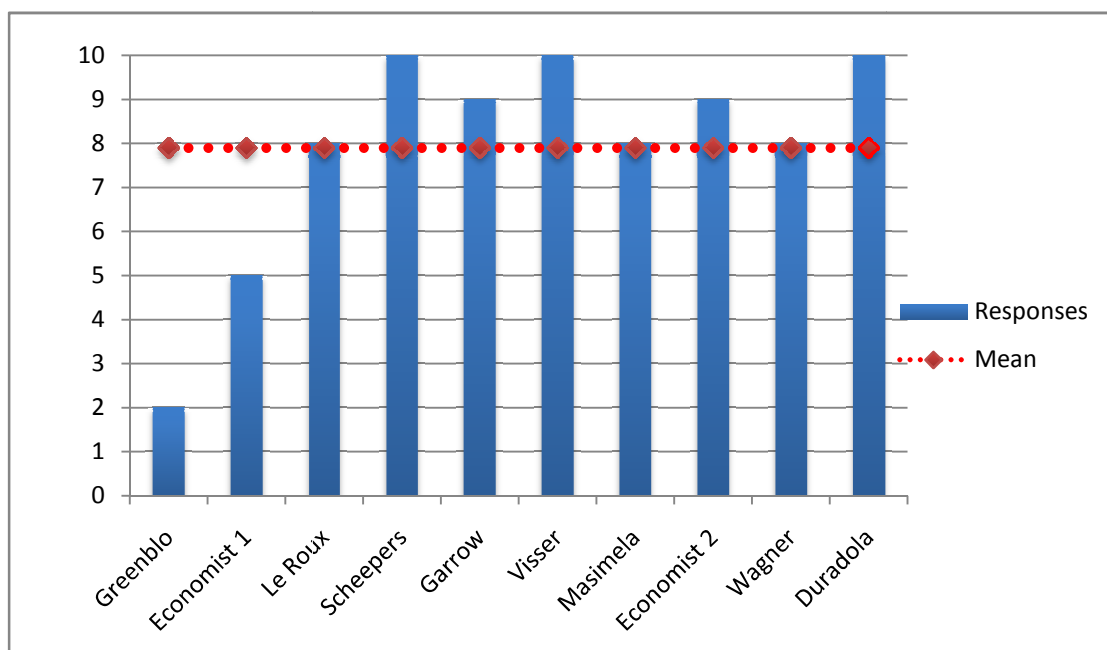


Figure 5.2: Income levels.

In figure 5.2, Visser and Scheepers both rated income levels at 10 out of 10 as having the greatest effect on household savings. Masimela and Wagner both rated income levels at 8 out of 10. The mean for the respondents in relation to this particular factor is 7,9 out of 10. The standard deviation for income level factor is 2,56. This value indicates the factor to be the second highest deviation amongst responses, and therefore falls within three deviations of the mean. The large deviation range suggests that responses are spread out over an ever larger range than that of the savings culture and do not lie closely to the mean.

The researcher identifies rather that the high deviation is due to two extreme outliers who as responses vary widely from that of the other answers.

The majority of respondents rate this factor above the mean response average of 7,9 out of 10. In the questionnaire, Economist 1 identifies the 'wealth effect' as a main factor affecting household savings in appendix 1, yet only rates income levels a 5 out of 10 for the effect it has on household savings. The researcher has interpreted 'income levels' as a household level of income. The differences in response could potentially be due to respondent misinterpretation or a misunderstanding. Greenblo gave this factor the lowest total of 2 out of 10 and this therefore qualifies the result as an outlier. Greenblo in the questionnaire identifies a lack of funds due to the high cost of living as a factor affecting household savings, yet contradicts this by stating that income has a low effect on household savings i.e. 2 out of 10 on the rating scale.

Income levels can be identified as a significant factor affecting household savings, given it's overall mean of 7,9 out of 10. It can therefore be said that income levels is rated a largely relevant factor that is responsible for affecting household saving in South Africa.

5.2.3 INTEREST RATES

Economist 1 and Garrow identified interest rates as one of the main factors affecting household savings. Garrow points to the current high interest rates that negatively affect households ability to save. In figure 5.3, Garrow has attributed a 10 out of 10 importance factor to interest rates, whilst Economist 1 has given it an 8 out of 10 rating. The mean response average is 7 out of 10 and interestingly both Greenblo and Duradola attributed a 9 out of 10 rating scale to the factor in question, yet not rated it as a main factor affecting household savings.

The mean of interest rates effect on household savings is 7 out of 10, this is the strength level that respondents believe interest rates to affect household savings in South Africa. The standard deviation calculated for interest rates is 1,76 and this suggests that respondents agree somewhat more on the effect that interest rates have on household savings in South Africa. There are still some responses that can be classed as outliers, however the responses are closer in range to the sample mean.

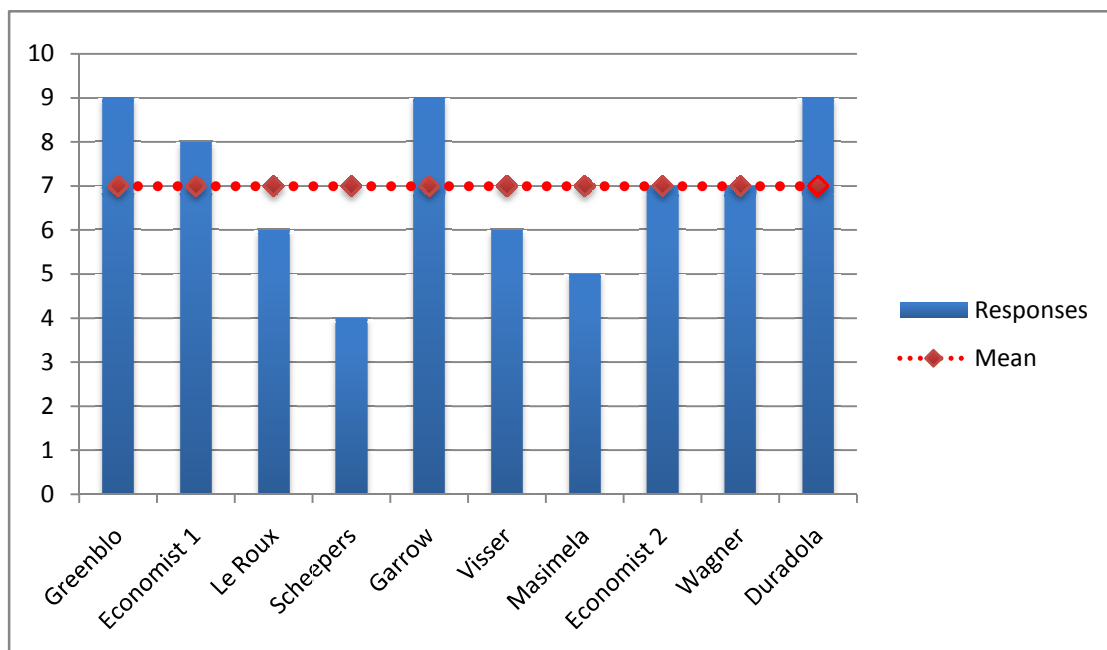


Figure 5.3: Interest rates

Harjes and Ricci (2000) are of the opinion that real interest rates are a means to influence savings in South Africa. Aron and Muellbauer (2000: 512) contribute to this when stating that the presence of lower interest rates has the ability to raise both corporate and household savings. The literature review supports the findings of the respondents where the best description of the effect of interest rates on household savings is given by Harjes and Ricci (2000). Harjes and Ricci (2000) state that interest rates could have two possible effects on savings, with each effect being opposite in nature. Interest rates have the ability to produce either an income or substitution effect in relation to savings. This is best evidenced when a positive increase in interest rates enriches individuals and consequently leads to an increase in consumption and

reduction in savings. Alternatively, increased interest rates also leads to increased returns on investment. This return on investment therefore has the power to delay consumption and increase savings. Interest rates can therefore be identified as an important factor for their ability to affect household savings.

5.2.4 FINANCIAL LITERACY

In figure 5.4, Le Roux and Scheepers have outlined financial literacy as one of their main factors affecting household savings. Le Roux attributed 7 out of 10 to this factor whilst Scheepers identified this factor as one of the most important factors affecting household savings by rating this factor as 10 out of 10. The overall mean response average is 8,2 out of 10, with the addition of Masilela and Duradola both also agreeing that the factor had an importance rating above that of the respondent average. Respondents have rated the effect that financial literacy has on household savings as 8,2 out of 10 and this is supported by the standard deviation figure of 1,14. The standard deviation for this factor is the second lowest deviation and indicates that respondents view this factor with a common consensus. Figure 5.4 indicates the closeness of each response to the mean and how closely the respondents supported this factor.

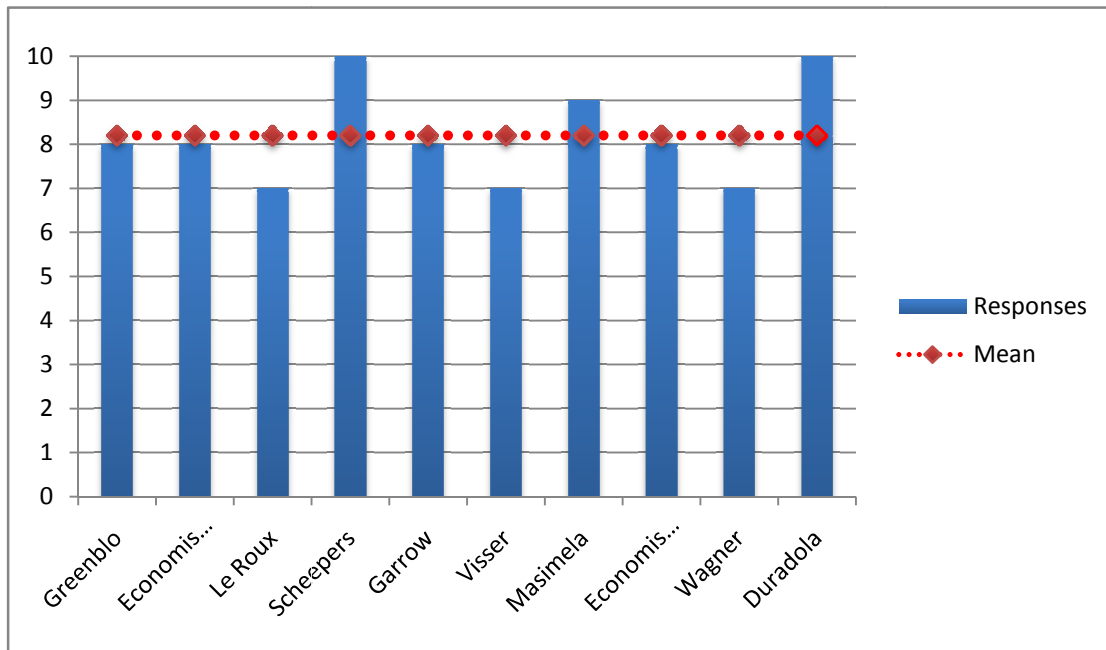


Figure 5.4: Financial literacy

Musewe (2008) in du Plessis (2008: 65 – 66) is of the opinion that the black market is insufficiently catered to, due to the perception that there are lower levels of financial literacy and understanding. Whilst there is a perception that there are lower levels of financial literacy amongst the prevailing black market, the views of Musewe (2008) are contrasted with those of Roth, Rusconi and Shand (2007: 5) in du Plessis (2008: 25). Roth *et al* (2007: 5) conducted a study on savings amongst lower income earners and found that poor households are not limited to formal savings structures and are able to make savings contributions through informal schemes. Whilst the common perception supports this view, Roth *et al.* identify informal savings models (*stokvels*) as savings vehicles utilised by poor households and the black market. This method of saving proves that there are underlying levels of financial literacy amongst poor households and the black market, yet the researcher is of the opinion that the level financial literacy is insufficient in South Africa and requires greater emphasis to educate households on the benefits of financial literacy. The researcher believes that improved levels of financial literacy will result in the growth of a national savings culture.

5.2.5 EDUCATION

Education is often considered the bedrock of a society and this is echoed by respondents Scheepers and Visser who identified education as a main factor affecting household savings in South Africa. Scheepers rated education as 10 out of 10 with Visser assigning 7 out of 10 as a factor affecting households savings. Scheepers states that a lack of education is a primary reason for households saving insufficiently. Visser states that education is important as it has a great effect on household savings and that understanding finance and its concepts will help educate households in financial planning. The mean average for education is 7,8 out of 10. Interestingly, Economist 1 and Duradola both rated education above the respondent average at 10 out of 10 and 9 out of 10 respectively, whilst Masilela and le Roux rated education a lowly 5 out of 10 for its ability to affect household savings. The researcher disagrees with these two respondents and believes that education is an important factor affecting household savings. The responses of Masilela and le Roux can be viewed as potential outliers. These outliers have a tendency to skew the question average and standard deviation. This is highlighted by the standard deviation figure of 1,75. Barring the two outliers of le Roux and Masilela, the deviation figure would drop significantly as well as raise the mean. Figure 5.5 clearly indicates the outliers below and also shows great support for education as strong factor affecting household savings.

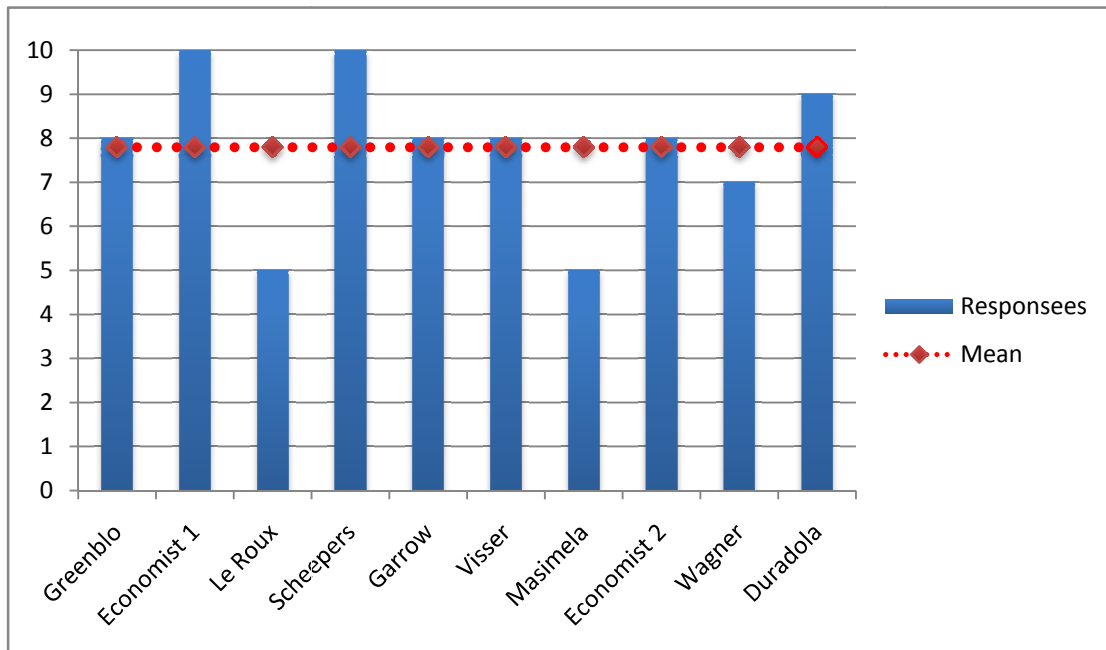


Figure 5.5: Education

Musewe (2008) in du Plessis (2008: 68) states that it is his belief that a lack of education is central to the root of the savings problem. Musewe (2008) in du Plessis (2008: 68) further states that the level of financial education and literacy was insufficient in creating a culture of saving amongst South Africans. Musewe is of the opinion that this lack of financial education has brought about inadequate exposure to financial concepts and therefore resulted in South Africans not having learnt to save. Manyama (2007: 68) supports this view when stating that education has the ability to empower people to create a life skill that is essential to bringing about a culture of saving. From the evidence provided, it can be seen that the literature supports the view of respondents with regard to the importance of education and its affect on household saving.

5.2.6 CONSUMERISM

Le Roux and Masilela have identified consumerism in appendix 1 as a main factor affecting household savings. Both respondents have attributed 9 out of 10 to the factors effect on saving. The respondents collective ratings generated a mean rating of 8,1 out of 10. It is interesting to note that Greenblo, Economist 2

and Duradola all rate consumerism above the mean with responses of 9 out of 10, 9 out of 10 and 10 out of 10 respectively. Respondents Scheepers and Garrow have differing views to that of the mean, and have rated this factor at 6 out of 10 and 5 out of 10 respectively. The mean rating of 8,1 out of 10 suggests that respondents believed consumerism to have a significant effect on household savings. The standard deviation for this factor is 1,52 is considered high given the majority of responses identified in figure 5.6. Figure 5.6 below identifies Scheepers and Garrow as the outliers in comparison to the trend set by the other respondents. Whilst Scheepers and Garrow don't rate consumerism as highly as the rest of the respondents, the mean is 8,1 out of 10 and this would increase to an even higher 9 out of 10 if mode were used. The researcher therefore believes that consumerism plays a large role in affecting household savings.

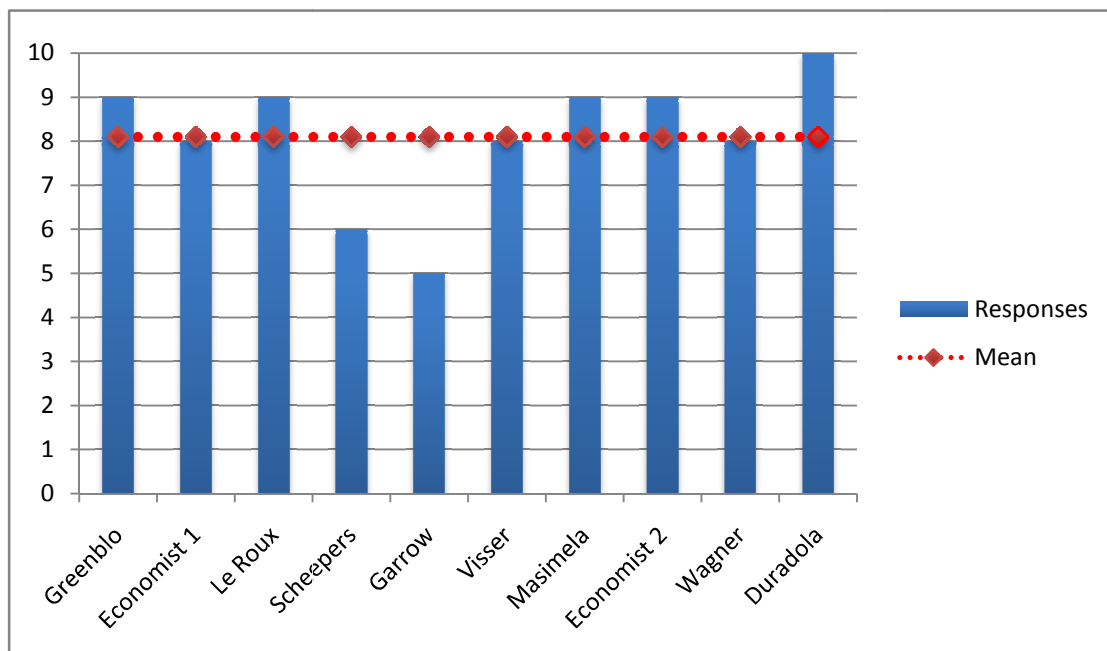


Figure 5.6: Consumerism

The literature review supports this in that it has identified that consumerism has a significant ability to negatively affect households savings in South Africa. Busschau (2010) states that people allow their immediate wants and needs to take priority over sound provision for the future. The emergence of financial liberalisation coupled with strong economic growth from 2000 to 2007 has

encouraged a rampant form of consumerism. Prinsloo (2000: 23) has identified that in the years post-1994, consumer spending has risen dramatically due to increases in disposable income amongst South African households. The increased disposable income had brought about demand for luxury goods and services previously not widely accessible pre-1994. With the readily available access to credit, consumers fuelled purchases of expensive goods and services with wild abandon.

Prinsloo identified the increase in consumerism amongst South African households as aspirational with a desire to impress neighbours, colleagues and family. Consumer spending had therefore shifted from that of essential needs to luxury wants. Musewe (2008) in du Plessis (2008: 66) refers to a growing materialism amongst South Africans who place significant emphasis on the status value of their personal success. Du Plessis (2008: 2) states that there is a direct link between rising consumerism in South African households and the poor levels of saving. Du Plessis (2008: 2) further believes that the increase in consumerism has also subsequently contributed to escalating inflation.

Sentence (2007: 293) in du Plessis (2008: 2) contributes to the argument and states that when asset growth occurs, the resultant outcome of this is increased consumer spending and reduced personal saving. The South African Reserve Bank in 2006 has also identified the emergence of negative levels of household saving due to factors such as widespread credit extension and excessive spending. (SARB, 2006) It can therefore be identified that consumerism is a significantly negative factor affecting households ability to properly save and together with financial liberalization has contributed to declining savings levels.

5.2.7 FURTHER FACTORS AFFECTING HOUSEHOLDS ABILITY TO SAVE

Respondents have further identified and outlined the following factors that have not been previously identified in the literature review:

- High unemployment: Economist 1, Wagner and Masilela;

- Poverty: le Roux;
- Market conditions such as weak labour markets, and rising inflation: Garrow;
- High cost of living: Visser;
- Rising administered prices, rising dependencies: Masilela;
- Expenditure behaviour (propensity to save): Wagner;
- Costs of subsistence expenses: Duradola.

These factors carry varying degrees of effect on households ability to save and are viewed by each respective respondent as valid factors affecting household savings.

5.3 WHY ARE SOUTH AFRICANS NOT SAVING ENOUGH?

Question 2 has been designed to understand the individual economists views on why South African households are not saving enough? This question has been created to alternatively tackle the issue of insufficient household saving and to better understand the reasons from another angle. This question has also designed to tie in with question 1, as it aims to identify reasons as to why South Africans are not saving enough. The economist's responses have raised key observations regarding their views on why South African households are not saving enough. The responses to question 2 have been tabled and are available in the appendices. The economist's responses will be evaluated against the literature review of chapter two, where similarities and differences will be identified and discussed.

The research has found that several economists have incorporated their responses from question one into question two. In appendix 2, Greenblo and Garrow state that the high cost of living is an influential factor as to why households are not saving enough. Greenblo attributes this to a lack of funds left over after expenses. Garrow adds to this argument when stating that national wage increases have not kept up with price increases. Garrow attributes the weak wage growth and increasing price growths, coupled with low

income as key contributing factors to insufficient savings amongst South African households.

Economist 1 points to a lack of education and a lack of a savings culture as key factors why households are not saving. Visser and Economist 2 state that there is a lack of a savings culture in South Africa with households typically not saving enough. Wagner identifies the emergence of consumerism, one of the factors previously identified in question one as a reason for insufficient savings in South African households. Wagner states that there is evidence of an emergence of a strong black middle class, whose spending behaviour is focussed on accumulating non-financial assets. Wagner states that these assets have no long-term value and that members of the black middle class are caught up with living the good life without concern for their financial position or future. Wagner also identifies financial liberalisation as a contributing factor towards consumerism, but states that if utilised correctly, financial liberalisation can be properly used to invest in assets, which can over time contribute to savings. Garrow raises an interesting point, which the researcher believes is a contributing factor or reason for the rise in consumerism amongst the black middle class. Garrow points to legacy issues, which have been responsible for precluding a large part of the population from purchasing assets. The emergence of a new South Africa and resultant financial liberalisation has raised consumerism across all members of South African society.

Economist 2 states that there are insufficient tax incentives to households to encourage savings and states that this is a contributing problem as to why households are not saving enough. The researcher has identified the increasing gradual overlap between answers by respondents. The responses confirm the views held in the literature as well as add unique views outside the boundary of the literature review. The gradual overlap in information will help build a model of measures to improve household savings.

5.4 WHAT MEASURES SHOULD BE TAKEN TO POSITIVELY INFLUENCE HOUSEHOLD SAVINGS?

Question 4 has been designed to gauge the respondents views to measures they believe to be effective in positively influencing household savings. This question has been further broken down in questions 5, 6 and 7 where the roles of government, corporates and individuals are called into question and the respondents are asked for their views on each individual sector. The responses gained here will be compared with those measures previously identified in the literature review and then analysed for similarities or differences.

Greenblo is the only respondent to suggest mandatory steps to introduce pension fund preservation. Greenblo is of the opinion that pension contributions should be made mandatory in order to positively influence household savings. Masilela supports the call for government intervention and believes that savings measures should be prescribed by law and legislated. Economist 1, le Roux, Wagner and Duradola state that changes to current tax structures are steps that government should undertake to influence household savings. Le Roux suggest lowering taxes as a whole to promote savings, whilst Wagner suggests that upper income tax brackets are too high and makes the suggestion of lowering this bracket from 40% to 35%. Duradola is of the opinion that tax incentives should be created to encourage households to further contribute toward their personal saving.

Education has been raised as a key measure to improving household savings with the majority of respondents approving of this measure to raise savings. Le Roux states that government campaigns should be implemented to educate and raise awareness on the need for savings amongst households. Educating households on savings ties in with the next measure identified, which is that of creating a culture of saving. Through the implementation of a savings education program, this will assist in raising an understanding and awareness on the needs to save. Visser raises the unique idea of 'behavioural nudging' as an innovative method to promote a culture of savings. Behavioural nudging is the

latest technique utilised by British policy makers to correct lifestyle risk behaviours and is believed to help nudge individuals into making better choices through the manipulation of their environment (Burgess, 2010). Behavioural nudging is therefore applicable to South Africa's need to promote education and a savings culture.

Government have a large role to play in the drive to improving saving measures in South Africa and this sentiment has been echoed frequently throughout the responses given by the respondents. Garrow raises the controversial topic of job creation and increased employment as steps to improve household saving. Garrow is of the opinion that people will only contribute towards savings and increase their marginal propensity to save as long as they are employed and confident of keeping that job. Garrow states that one can only imagine the impact that the proposed government increase in jobs would have on household savings.

This sentiment is echoed by Asilis and Ghosh (2002) in Manyama (2007: 70) who state that it is the purpose of government to grow and stimulate the economy out of positions of low growth. Should government follow the advice of both Asilis and Ghosh (2002) and Garrow, it would place greater emphasis on job creation in South Africa with the long-term positive approach to improving household savings. This is a long-term approach and is not an immediate solution to the problem at hand.

The researcher believes that the key to the improving household savings have to be addressed immediately and should not wait on government induced economic growth. Whilst long-term economic growth is a heavily supported tool to improving household savings and must be encouraged for the greater economic good, the effects thereof are only to be experienced over time. The savings crisis in South Africa requires immediate attention and both short-term and long-term strategies are required to alleviate the household savings problem.

Government are able to, within a short space of time, implement fiscal policy changes that would encourage household saving through incentives. ABSA economists (2007) state that the abolishment of secondary tax will assist in simplifying corporate tax and effectively reduce the tax burden. Cronje (2009) states that government should look to boost tax incentives to households that will reward contributions and ultimately encourage savings.

When analysing the overall response from the field of respondents it is evident that the common denominator throughout seems to lie at the door of government. The following questions will force respondents to look at the other sectors that can potentially contribute to influencing households ability to save.

5.5 WHAT ROLE CAN GOVERNMENT PLAY IN IMPROVING HOUSEHOLD SAVINGS?

Question 5 has been designed to gauge the respondents specific views on what they believe the role that government can play in improving household savings. The responses gained here will be compared with those measures previously identified in the literature review and then analysed for similarities or differences. In question 4 the respondents regularly singled out governments role in improving household savings. In appendix 5, the respondents have identified the following areas to be addressed by government:

5.5.1 TAX

Scheepers is of the opinion that government should rather encourage savings and not tax interest on savings for individuals in their personal capacity. Garrow supports this statement in suggesting tax incentives to individual households to encourage savings contributions. Strydom (2007) states that high individual tax rates impose a heavy burden on households and that the tax payments are made out of potential savings. Strydom (2007) also points to the issue of tax arbitrage where the South African tax system is unsympathetic towards

households. The current system encourages income to be channelled from households to corporates and brings about a switching behaviour. Further tax incentives such as the tax breaks offered by government on current retirement contributions could greatly benefit South African households by incentivising savings contributions. Tax was not fully covered in the literature review and from the responses it can clearly be identified as a popular method by respondents to encouraging savings contributions amongst households.

5.5.2 INCENTIVES

The subject of incentives has also been regularly brought up by respondents in their argument for establishing the role of government in improving household savings. Le Roux states that government should look to initiating savings incentives and should start by lowering the costs of savings products. Visser echoes this argument by stating that government should look to lowering the costs to save and make it attractive for households to contribute towards savings products. Duradola suggests a money-back scheme whereby government should look to match contributions by households towards savings schemes. Duradola suggests establishing terms and conditions to the scheme to prevent abuse.

Garrow states that government should incentivise savings through the use of retail bonds that have inflation-linked hedge rates. Manyama (2007: 70) supports the use of retail bonds to stimulate savings initiatives, however Manyama (2007: 70) is of the opinion that the current retail bonds on offer by government are not effective enough in attracting savings amongst poorer South African households. Manyama believes that the retail bonds require a lower minimum investment to greater encourage household contributions. Government should make amendments to the retail bonds on offer. The researcher believes that these bonds make a safe, practical investment to all households. Changing the minimum deposit amounts, and marketing the changes, will see greater contributions by poorer households.

5.5.3 FURTHER MEASURES TO SAVE THAT HAVE NOT BEEN PREVIOUSLY IDENTIFIED IN THE LITERATURE REVIEW

- Greenblo is of the opinion that government should set a much better example through their own spending programs and in doing so lead by example.
- Economist 1 stated that government should look to cut spending on intermediate goods and services.
- Economist 1 also suggested that government look to focus on rooting out corruption as this was a waste of taxpayers money and negatively affects government spend.
- Le Roux highlights the regulation of banking by government to help drive down banking costs.
- Economist 2 states that government should look to job creation as a long-term solution to household savings contributions. Over the long-run the contributions can help prevent South Africa becoming a welfare state.
- Wagner raises the prickly issue of service delivery. Wagner states that the efficient provision of services can help contribute towards household savings.

The contributions by respondents highlights the need for the South African government to address the issue of household savings. The respondents suggestions should be debated further and discussed to identify workable solutions to households becoming savings contributors in the foreseeable future.

5.6 WHAT ROLE CAN BUSINESS/PRIVATE SECTOR PLAY IN IMPROVING HOUSEHOLD SAVINGS?

South Africa is renowned for having a strong corporate sector and this question seeks to address the issue of household savings by asking the key economists on their views to the role that corporates and the private sector can play in improving household savings. The researcher believes that the key to improving household savings does not lie solely with the government, but will require a joint effort by, government, business and individuals to provide a holistic solution.

5.6.1 GOVERNMENT

A frequently recurring point amongst the respondents was that of greater interaction between government and the corporate sector when responding to seeking to improve household savings. Economist 2 supports this when stating that there is a need for continued interaction between government and the private sector to prevent the possibility of the country becoming a semi-welfare state.

Masilela believes that corporates have a large role to play in the creation of jobs. Economist 1 supports this statement and is of the opinion that lower government interference in the private economy would have a greater effect on job creation and job opportunities. The role of job creation is closely linked to economic growth and Keynes and Friedman as mentioned earlier have identified a positive relationship between an increase in income and its effect on savings. It can therefore be argued that once households earn more, savings contributions will increase.

5.6.2 EDUCATION

The need for financial literacy and savings education is an important tool to ensure that increases in the economy and job creation are not wasted on consumption and wasteful expenditure. Musewe (2008) in du Plessis (2008: 68) states that the level of financial education and literacy was insufficient in creating a culture of savings amongst South Africans. Musewe goes further to say that it is his belief that the lack of education is central to the root of South Africa's household savings problem.

Greenblo states that the private sector are key role players in improving financial education and Masilela echoes this sentiment when stating that the private sector should provide greater access to educational opportunities to factory floor workers. The researcher supports Manyama (2007: 68) assertion that education has the ability to empower people to create a life skill that is essential to bringing about a culture of saving. Once empowered, households will possess the necessary skills and mindset to make savings decisions.

5.6.3 FURTHER MEASURES TO CORPORATE SAVINGS THAT HAVE NOT BEEN PREVIOUSLY IDENTIFIED IN THE LITERATURE REVIEW

- Payroll deductions: Greenblo believes that the private sector should look to introduce savings payroll deductions to help encourage savings amongst its employees.
- Visser states that corporates can contribute towards savings by reducing accessibility costs as well as the costs of financial products on offer.
- Wagner states that business should aim to be as efficient as possible in its operations so as to ensure that it is able to absorb external costs and not pass these on to employees through reduced salaries or low growth.

5.7 WHAT CAN INDIVIDUALS DO TO IMPROVE THEIR HOUSEHOLD SAVINGS?

The role of the individual in the quest to improve household savings measures is immense. Without the buy-in or will to achieve household savings, the idea of implementing a culture of savings will not emerge successfully. Factors that affect savings all directly affect the individual household and by addressing the factors together with the advice by respondents will assist establishing a platform for future savings reform.

5.7.1 BUDGETING

Budgeting has been identified by several respondents as being a key measure that individuals need to utilise to improve their personal savings. The use of effective budgeting cannot be overlooked as Scheepers points out that this will assist individuals in not living above their means. Budgeting has been likened to a successful savings tool. Wagner however states that it is only effective when utilised in conjunction with a sufficient level of education and financial literacy. Masilela ties financial literacy and budgeting together as a measure that individuals need to use to provide for effective savings. Wagner states that budgeting helps inform the individual on the status of their finances or financial dilemma. Duradola sums this up best when stating that effective household savings requires the individual to practicing budgeting and financial discipline in order to save effectively.

Musewe (2008) in du Plessis (2008: 65) is of the opinion that black households do not make use of a financial budget or share financial information. Prinsloo (2000:17) identifies the negative impact that the wealth effect has on consumer saving. Effective budgeting will assist homeowners in correctly reading their financial status and position.

5.7.2 SAVINGS CULTURE

Stals (2001: 4) in du Plessis (2008: 31) states that the propensity to save is part of the established culture of a nation. It is the establishment of a culture of savings as a drive to create a propensity to save by South African households. Scheepers identifies a savings culture as necessary for individuals to avoid the culture of instant gratification. Individuals need to develop a culture of saving and delay their needs when confronted with the lure of consumerism. Masilela believes that individuals must be responsible for becoming financially literate, develop a budget and live within their means. This is an indication that households need to develop a culture of saving through a combination of measures, and no one measure can successfully bring about a culture of savings. Wagner raises the eastern cultures of India and China as examples of savings cultures South Africa could look to emulate. Cronje (2009:2) supports this statement when suggesting that South and East Asian countries have a greater culture of saving than sub-Saharan Africa. In conclusion it is imperative to establish a culture of saving in South Africa as a crucial measure to improving household savings.

5.8 CONCLUSION

Chapter five seeks to identify measures that can be implemented as a means to improving overall household saving. Chapter 5 achieves this through identifying measures to improving saving by addressing government, corporate and individual contributions to the overall savings effect. The researcher is of the opinion that there is no one single measure that will systematically improve household savings, but rather believes that it is a combination of a host of measures identified in chapter five that will lead to an increase in savings contributions. Chapter five identifies the following factors as key factors affecting household saving and rates them in descending order of value:

- Savings culture: 8,4 out of 10
- Income levels: 7,9 out of 10

- Interest rates: 7 out of 10
- Financial literacy: 8,2 out of 10
- Education: 7,8 out of 10
- Consumerism: 8,1 out of 10

The respondents displayed high average mean ratings for the above-mentioned factors, with certain respondents breaking from the trend and providing outliers on the graphs. The reasons for the respondents views on the rating scale could warrant further investigation. Respondents also further raised independent factors such as:

- High unemployment
- Poverty
- Market conditions
- High living costs
- Rising prices
- Expenditure behaviour
- Costs of subsistence expenses

The respondents largely identified the above-mentioned factors as reasons as to why South Africans were not saving enough and suggested measures that government, corporations and individuals could take to positively influence household savings. These measures include:

- Tax breaks
- Government incentivisation
- Education
- Budgeting
- Developing a culture of saving

These suggestions help outline a path for government, corporations and individuals to follow in achieving greater household savings.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The findings of this chapter aims to present the findings and recommendations of the investigation into measures to improve savings in South African households. The conclusions and recommendations herein seek to provide evidence of measures to help improve savings in South African households through the extensive literature review and investigative findings of the research questionnaire.

The objectives of the study are to:

- Examine household savings in South Africa.
- Identify factors affecting household savings in South Africa.
- Interview leading South African economists to gain insight on their perceptions of household savings.
- Evaluate differences between current savings measures and those identified in the interview.
- Identify measures to improve household savings.

The objectives of the study have been met through a combination of the literature review and research methodology. The research methodology employed utilises a qualitative research questionnaire distributed to leading experts in the field of finance and economics. The insights and opinions of these leading experts has helped further the literature and provides answers to the topic of measures to improve household savings in South Africa.

This study has been designed around the research problem of insufficient savings and the resultant savings crisis in South African households. This research study has revealed that household savings contributions are grossly insufficient and that savings has taken a back seat over the past two decades. This has led to a downward spiral of dissaving and together with lax credit

controls and easy credit access, has resulted in a debt trap for many households. The objectives of the study were specifically set out to identify and highlight the factors influencing savings and savings contributions in an attempt to identify measures that can be taken to positively rectify the savings collapse. Understanding these factors as well as what roles Government, Corporates and individuals can play in rectifying the situation can successfully lead to creating measures to improving household savings.

6.2 CONCLUSIONS AND RECOMMENDATIONS ON MEASURES TO IMPROVE SAVINGS IN SOUTH AFRICAN HOUSEHOLDS

This study was brought about as a result of the savings dilemma amongst South African households. Greenblo (2011:18) is of the opinion that there is a lack of a savings culture amongst South African households and as a result has created a national savings malaise. Greenblo states that many households are not making sufficient savings contributions and that this has led to a ratio of household debt to disposable income of around 80%. Greenblo points out that fewer than six percent of the population will retire financially independent and that despite the abundance of warnings through media and government, it has had little effect on the savings behaviours of South African households. Du Plessis (2008: 93) best sums up the savings situation in South Africa when stating that there have only been a limited number of studies conducted on the savings behaviour of South African households and this can be attributed to the numerous economic and cultural subsets affecting South African households. This has therefore resulted in a dire need for research into the topic of measures to improve savings in South African households.

In preparing an investigation into measures to improve savings in South African households, the researcher felt it necessary to investigate first an introduction and definition of savings before examining trends in household saving and reasons for low savings culture in SA. The savings behaviour of South African households have been identified by examining trends in household savings.

The trends analysis illustrated the growing dissaving occurring amongst South African households over the past two decades. As evidenced by Manuel (2011), the dissaving experienced amongst households has created a debt trap, with consumers borrowing money they have not already earned.

In an attempt to better understand the importance of saving, the theoretical models of saving were identified and discussed with the objective of identifying and evaluating factors that affect saving. This has been undertaken with a view to establishing measures to improve household savings.

The theoretical savings models identified are:

- The John Maynard Keynes's AIH model identifies income as a key determinant in the households saving behaviour and suggests that a households saving would systematically increase upon an increase in income (Modigliani, 1986: 298);
- Milton Friedman's PIH model identifies household consumption decisions being based on the assumption of an expected long-term income as opposed to the current income approach of Keynes (Friedman, 1967);
- Franco Modigliani's LCH model states that consumer savings and consumption behaviour is affected by the consumer's choice based on the stages of age and life-cycle (Modigliani and Brumberg, 1954).

The researcher has identified several key factors that influence a households ability to save and has included these in his recommendations as measures to be addressed in improving household savings. The key factors affecting household saving in South Africa were rated by the respondents. These factors were further discussed with a view to how to improve household savings. The researcher identified a list of factors in the literature review and asked respondents to rate the effect that these factors had on households ability to save. The responses were tallied and a mean as well as standard deviation calculated to identify the average response as well as the spread of the range.

This was done to identify how respondents viewed the strength of each of the factors and their effect on household savings.

The factors are identified below in table 6.1 and illustrate the strength ratings per respondent. Further visual bar charts are available for viewing in appendix 1. The factors are discussed below as measures the researcher believes to be practical measures to improve household savings.

Table 6.1: MAIN FACTORS AFFECTING HOUSEHOLD SAVINGS IN SOUTH AFRICA

Factors	Mr. Allan Greenblo	1 Economist	Mr. Kabous le	Mr. Eric Scheepers	Mr. Colen Garrow	Mr. Schalk Visser	Mr. Elias Masilela	2 Economist	Mr. Harold Wagner	Mr. Duradola Oladumola	Mean	Standard Deviation
Financial Literacy	8	8	7	10	8	7	9	8	7	10	8,2	1,14
Education	8	10	5	10	8	8	5	8	7	9	7,8	1,75
Financial Liberalisation	8	8	4	8	9	5	9	7	5	5	6,8	1,87
Budgeting	9	7	8	8	9	10	10	6	5	10	8,2	1,75
Income levels	2	5	8	10	9	10	8	9	8	10	7,9	2,56
Savings Culture	10	8	9	5	4	10	9	10	9	10	8,4	2,17
HIV/AIDS	9	3	6	9	3	5	9	6	7	2	5,9	2,64
Government Monetary Policy	9	5	5	8	3	4	5	5	5	9	5,8	2,1
Interest Rates	9	8	6	4	9	6	5	7	7	9	7	1,76
Consumerism	9	8	9	6	5	8	9	9	8	10	8,1	1,52
Debt	9	7	8	10	8	8	9	9	8	9	8,5	0,85
Economic Growth	9	7	6	7	9	5	7	7	5	5	6,7	1,49

- Financial literacy (8,2 out of 10) – The researcher has found that poor savings contributions can be attributed to a lack of financial literacy and knowledge of saving. The researcher proposes that improved levels of financial literacy will better equip individuals to better

manage their finances and budgets. Better implementation of the SASI school “Teach children to save” campaign and “Varsity financial literacy campaign”, will assist in teaching children and varsity students the benefits of financial literacy at a young age (SASI, 2010). Financial literacy is a factor that needs to be addressed at government, corporate and individual level and each should take ownership and responsibility for their financial literacy. The literature as well as evidence by the respondents have identified that improved financial literacy is a key factor to improving household and personal savings.

- Education (7,8 out of 10) – a lack of financial education has been identified as a significant contributor towards poor savings. The researcher supports Manyama (2007: 69) who explains that once people are better educated on the subject of savings, only then will a culture of saving begin to emerge and household savings improve. The researcher proposes that government should look to further encourage education and include financial literacy in the government schooling program. This will help raise awareness of the need for savings and the benefits that long-term savings will have on households. Individuals should also look to educate themselves on the benefits of saving, budgeting and sound financial principles to household savings. Corporations also have a role to play in promoting financial education and awareness in the workplace. The researcher supports van Zyl (2010) as cited by Jackson (2010) and proposes calls for mandatory savings to be implemented for employees. The researcher believes this will assist in improving savings contributions as well as help in preparing individuals for retirement.
- Financial liberalisation (6,8 out of 10) – Access to credit and financial liberalisation of the greater South African market has created a nation of highly indebted families. South Africa’s low household saving rate has meant cash-strapped households turn to credit providers and therefore become stuck in a revolving debt cycle. The researcher

proposes stricter credit controls be implemented to reign in the debt free-fall and spending by credit-hungry consumers. There is a need for greater collaboration between individuals and corporates (those offering credit) to prevent situations of over-indebtedness. Financial liberalisation must be viewed as a two-edged sword and that it has both its strengths and weaknesses. Utilised wisely, financial liberalisation and access to credit can help individuals build wealth and an asset base. Utilised incorrectly, this can plunge consumers into a cycle of debt.

- Budgeting (8,2 out of 10) – insufficient budgeting has brought about a fundamental decline in household savings and created an information vacuum on the state of household finances. The researcher proposes the promotion of budgeting as a tool to controlling household finances is an important key to improving household savings. In order to stem the tide of poor saving, the researcher believes that budgeting is key to improving household savings. The researcher believes that budgeting will help individuals focus on their individual income and expenses. Knowing and identifying a budget and living within your means is key to establishing an efficient savings plan.
- Income levels (7,9 out of 10) – Income is a key determinant of household savings contributions, the Keynesian view is that as income levels rise, so too do savings contributions (Modigliani, 1986: 298). Savings is inter-linked with economic growth, employment and personal income (van Zyl, 2010), and the researcher proposes that individuals take responsibility for their personal savings. This will have a knock-on effect on economic growth and employment. Income levels are intrinsically tied to economic growth, and as the economy grows so too will jobs and income levels. The researcher proposes that the government be further tasked with job creation and the resultant rise in employment will influence income levels and ultimately savings.
- Savings culture (8,4 out of 10) – The lack of a savings culture is highlighted as a key determinant of South Africa's poor household

savings rate and the propensity to save is part of the established culture of a nation (Stals, 2001: 4 as cited in du Plessis, 2008: 31). The researcher proposes that establishing a culture of savings in South Africa is key to improving household savings and reversing the current dissaving occurring in the country. The responsibility of educating households to develop a culture of saving must rest initially with government, supported by corporations and followed through by individuals.

- HIV/Aids (5,9 out of 10) – The HIV/Aids impact on household saving is determined through the impact that the disease will have on the economic growth rate and the economically active members of a household. The researcher believes that the affect that HIV/Aids will have on household savings is a consequence of the impact it will have on the households. Breadwinners who contract and die of HIV/Aids leave families in a poor financial positions as well as family members requiring financial support or who are no longer able to work. The researcher proposes continuous improvements in the government anti-retroviral roll-out campaign and improvement in currently assisting and better treating those infected with HIV/Aids. The role of HIV/Aids is a hugely detrimental factor affecting households, and the resultant effect it has on household savings is significant.
- Government monetary policy (5,8 out of 10) – Over the years, government monetary policy changes have brought about a negative reaction from households. Both government monetary and fiscal policies have a large effect on household savings contributions through measures such as tax, interest rates, government spending and the influence of economic growth or recession. These factors can both positively and negatively affect household savings. The researcher proposes that government assist households in contributing further to savings through monetary and fiscal policy interventions. Government should also look to utilising tax breaks and savings incentives to promote and incentivise household savings.

The researcher proposes efficient monetary and fiscal policy implementation in promoting savings and the establishment of a savings culture.

- Interest rates (7 out of 10) – interest rate increases negatively affect savings due to the over-indebtedness of South African households. The researcher proposes that given a lower debt margin, households would benefit from higher interest rates if they had sufficient savings set aside. Due to the high level of household debt, the researcher proposes that lowering interest rates will assist consumers by creating more disposable income. This benefit tied together with government incentives will incentivise households to constructively invest their disposable income.
- Consumerism (8,1 out of 10)– Access to credit and a willingness to keep up with the Kunene’s has allowed immediate wants and status acquisitions to take priority over sound provisions for the future. The researcher proposes the promotion of education and financial literacy to assist in alleviating South Africa’s rising consumerism. Stricter credit controls and greater regulated credit access will assist in slowing rampant consumerism currently and slowly educate households to the benefits of saving.
- Debt (8,5 out of 10) – Household debt as a result of easy credit together with the accompanying consumerism has brought about significant debt to the average South African household. Spiralling debt has contributed to the low savings rate or dissaving. The researcher proposes improvements to the household debt ratio will bring about positive savings contributions. Addressing debt and the causes of debt will have a positive effect on household savings and the researcher is of the opinion that stricter government controls and regulations are required to prevent households slipping into debt.
- Economic growth (6,7 out of 10) – There is a positive correlation between economic growth and savings contributions, and as the economy grows so too do income levels and the resultant savings contributions. The researcher proposes that economic growth is key

to improved household savings and that it is government and corporates responsibility to promote economic growth and stability in South Africa. This is supported by Asilis and Ghosh (2002) in Manayama (2007: 70) who states that it is the responsibility of government to grow and stimulate the economy out of positions of low growth .

The research has examined household savings in South Africa in the literature review. A list of factors affecting household savings have been identified and have been instrumental in establishing the reasons for South Africa's low savings rate. Leading economists and financial experts were interviewed to build on the literature and gain further insights into factors affecting household savings and identifying measures to improve. The researcher has compared the literature and the research conducted to establish measures to improving household savings in South Africa.

6.3 LIMITATIONS AND AREAS FOR FURTHER RESEARCH

The limitations related to this study are important to identify in an effort to provide guidelines for future research. Identification of the limitations can assist future researchers in guiding their research studies to overcome any potential hurdles that they may encounter. The limitations the researcher has encountered were difficulties in obtaining specific data pertaining to household savings in South Africa. The researcher experienced further limitations regarding the sampling methods employed and sample size. The findings of the study can not be generalised to the entire household population. This is due to the fact that the respondents were selected as industry experts in the fields of finance and economics. The responses obtained are meant to provide further insight and understanding into the household savings dilemma. Whilst the researcher believes that a qualitative study is necessary to achieve the recommendations obtained by the industry experts, the researcher also of the opinion that a quantitative study is necessary to better understand the views and perceptions of individual households. Such a study falls outside the scope

of the resources available to the researcher as it requires greater time and cost allocations. The researcher proposes that future research may benefit from a larger sample size. Due to the geographical locations of the respondents in the research, personal interviews were not possible and the researcher had to make use of telephonic interviews and an e-mail questionnaire. The researcher would have preferred to have conducted personal interviews with all of the respondents.

6.4 CONCLUSION

In conclusion, the difficulties surrounding the savings dilemma in South African households has been noted. The savings problem is one that is constantly evolving and subject to changes by the external factors influencing household saving. This area of study demands greater attention from government, corporations and most importantly individuals and households in an effort to develop a culture of saving and follow measures designed to help individuals and households save. Improvements in household savings will result in benefits to the economy, households and government as a whole. There is therefore a greater need for further studies and investigations into the subject of household savings in South Africa.

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APPENDIX

APPENDIX 1:

QUESTION 1: *What do you identify as the main factors affecting household savings in South Africa?*

Respondent	Response
Mr. Allan Greenblo	Greenblo identifies a lack of savings culture.
Economist 1	<p>Economist 1 identified the following main factors affecting household savings as:</p> <ul style="list-style-type: none"> • Low to negative real after tax rates on returns • Demographic variables • Wealth effect • Interest rates • High unemployment
Mr. Kabous le Roux	<p>Le Roux states that the three main factors affecting household's ability to save are poverty, the lack of financial literacy and consumerism. Le Roux states further that the rate of financial illiteracy has significantly resulted in households not contributing sufficiently towards saving. Le Roux states further that there is a growing level of consumerism amongst modern day society that is actively fed and fuelled by advertisements and endorsements of a consumption culture. The product of over-consumption, he reasons, has led to unhappiness amongst consumers.</p>
Mr. Eric Scheepers	<p>Scheepers identifies education as one of 3 main factors affecting household savings, and states that the lack of education is a primary reason for households not saving enough. Scheepers states that education in the forms of savings education and financial literacy should be introduced as a life skill from the first grade in school. Financial literacy is a point Scheepers highlights as being "shocking, across the board, for all demographics," and identifies this as a main</p>

	<p>factor. Lastly Scheepers identifies levels of income as a significant factor to save, and states that poor income levels and the high cost of basics makes it almost impossible to save.</p>
<p>Mr. Colen Garrow</p>	<p>Garrow has identified market conditions as one of the main factors affecting household savings. Garrow states that a weak labour market together with rising inflation, particularly that of food and energy has the greatest effect on household's ability to save. Garrow points to high levels of household debt (77% of household disposable income) and the high interest rates amongst the main factors affecting household savings. Garrow explains further that despite a 650 basis points drop in rates, at 5.5% the SARB's repo rate remains significantly higher than the near zero-rates in G3 markets. Garrow outlines the aforementioned factors as being the main determinants affecting household savings and that the LSM-3 income categories, who make up the majority of the South African population are the ones whose budgets are largely taken up by food expenses rather than contributions to savings.</p>
<p>Mr. Schalk Visser</p>	<p>Visser cites the high cost of living in South Africa as a major factor affecting household's ability to save. Visser states that rising costs are exceeding the household's income levels and that this is leaving insufficient funds for saving at month end.</p> <p>Visser identifies education as having a great effect on household savings and states that understanding finance and its concepts will help educate households in financial planning.</p> <p>Visser states that financial liberalization and access to credit is able to assist in creating savings through home ownership in the long term, however, he doesn't believe that having access to credit will influence short-term savings.</p>
<p>Mr. Elias Masilela</p>	<p>Masilela rates the following factors as the main reasons as to why he believes South Africans are not saving enough:</p> <ul style="list-style-type: none"> - Income levels - Lifestyles - Peer pressure - Rising administered prices

	<ul style="list-style-type: none"> - Rising dependencies - High unemployment - Access to credit
Economist 2	Economist 2 states that the main factors affecting household savings are the lack of a savings culture and the fact that South Africa is becoming too much of a welfare state.
Mr. Harold Wagner	<p>Wagner identified the following main factors affecting household savings:</p> <ul style="list-style-type: none"> • Income • Expenditure behaviour (propensity to save) • Tax rate • Unemployment
Mr. Oladumola Duradola	Duradola states that the main factors affecting household savings are subsistence expenses such as the petrol price and cultural expenses such as funeral costs, lobola and social expectations.

QUESTION 2: *Why are South African households not saving enough?*

Respondent	Response
Mr. Allan Greenblo	Greenblo cites the high cost of living as a reason why South Africans are not saving enough. Greenblo states that there are insufficient funds remaining due to this high cost of living and that he believes there is a belief amongst households that the state would provide assistance to struggling households.
Economist 1	Economist 1 identified the factors listed in question 1, together with a lack of education and a non-conducive savings environment created by government.
Mr. Kabous le Roux	Le Roux identified the same factors as given in question 1.
Mr. Eric Scheepers	The same reasons as in question 1.
Mr. Colen Garrow	Garrow states that the reason South Africans are not saving

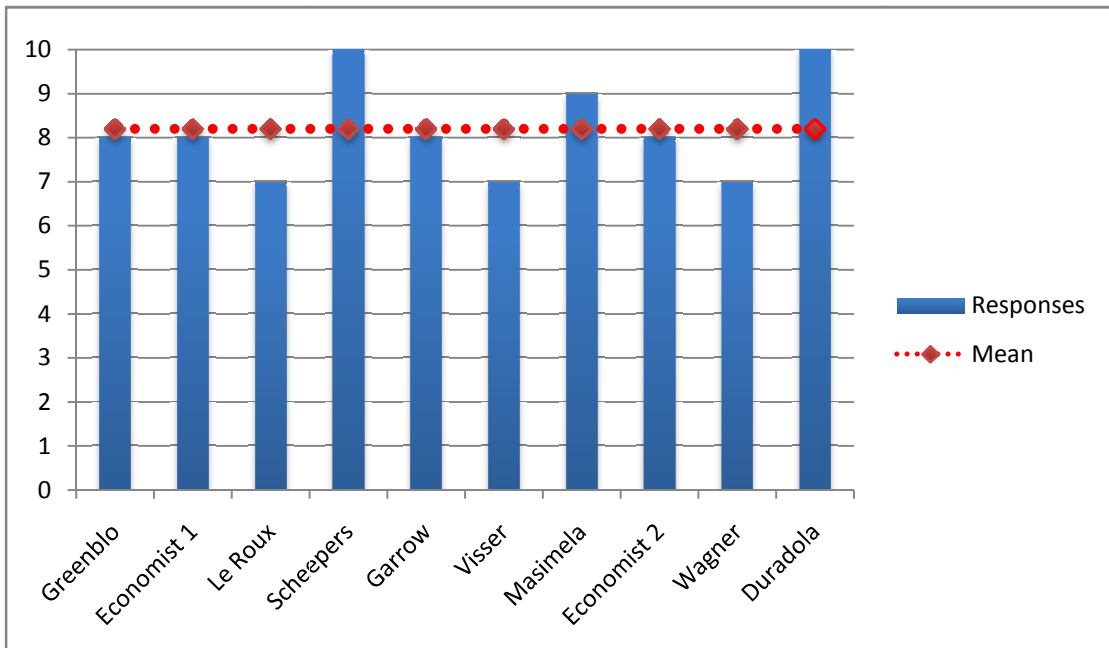
	<p>enough are due to wage increases that have not kept up with price increases in food and energy i.e. fuel and electricity. Garrow states that real wage growth has weakened in an environment where a number of price increases are prevalent, not only in food and energy, but also in administered prices, such as utilities and property tax. Electricity alone is up 25.8% in 2011, with further threats of price hikes as applications for increases are being brought before the regulator NERSA.</p> <p>Garrow outlines the low income of South Africa's poor as a contributing factor to a lack of savings, and stated that in his opinion as households migrate further up the income ladder, in theory, so too should the greater shares of household income be diverted towards savings products.</p> <p>Garrow also points to a weak labour market and the high unemployment rate of 24% as further reasoning to South Africa's lack of household's savings. Interestingly, Garrow outlines legacy issues, which precluded a large part of the population from purchasing assets prior to 1994.</p>
Mr. Schalk Visser	<p>Visser is also of the opinion that there is not a culture of saving in South Africa and those households are increasingly placing their retirement welfare reliance on their large family units.</p>
Mr. Elias Masilela	<p>Masilela identified the same factors as given in question 1.</p>
Economist 2	<p>Economist 2 states that a lack of a savings culture has resulted in South Africans not saving enough. Tax incentives for saving are also indicated as being too low and contribute to household's lack of saving.</p>
Mr. Harold Wagner	<p>Wagner is of the opinion that household's inability to save is due to the combined affect of the factors mentioned above. Wagner further points out the emergence of a strong black middle class, whose spending behaviour is focused on accumulating non-financial assets (which he states has no long-term asset value) and are caught up in living the good life without sufficient concern for their financial position or their future. Wagner believes that the emergence of the black middle class is indicative of financial liberalization, and</p>

	although he denounces their current spending and savings trends. Wagner believes that if financial liberalization were to be used effectively, it could lead to investment in assets, which over time would contribute to savings. Currently, however, financial liberalization and access to credit has led to increased consumption and a lower propensity to save.
Mr. Oladumola Duradola	Duradola is of the opinion that the factors identified in question one are the primary reasons as to why households are not saving enough.

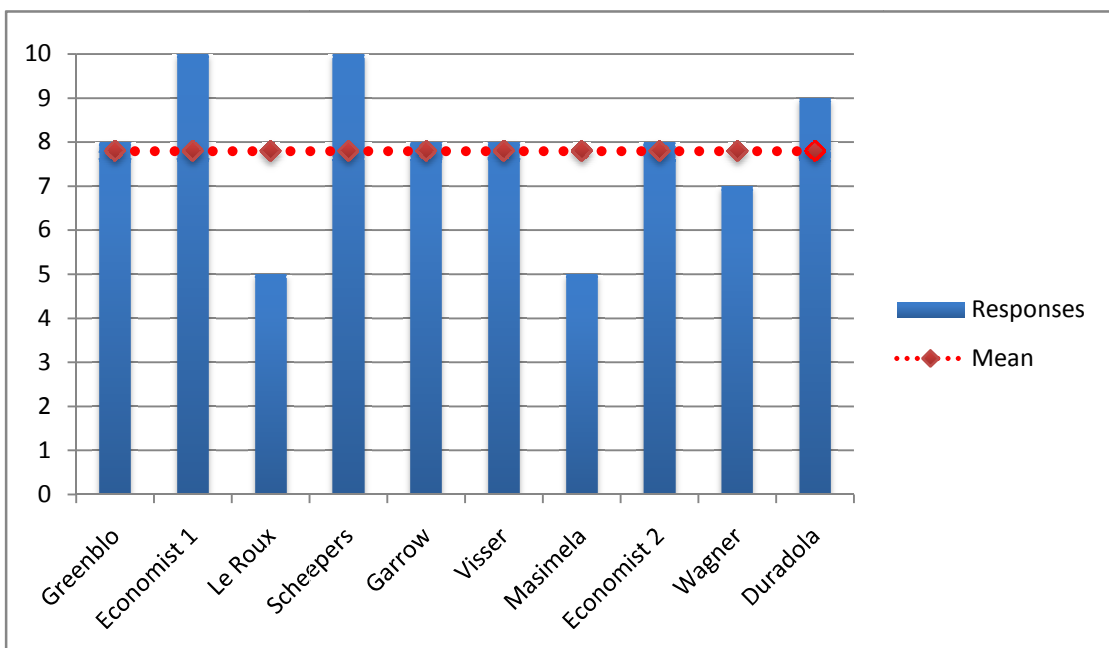
QUESTION 3: *Rate the effect each of the following factors have on household savings in South Africa (with 10 having the greatest effect on the relevant factor and 1 having no effect).*

Factors	Mr. Allan Greenblo	1 Economist	Mr. Kabous le	Mr. Eric Scheepers	Mr. Colen Garrow	Mr. Schalk Visser	Mr. Schalk Masilela	2 Economist	Mr. Harold Wagner	Mr. Duradola	Mr. Oladumola Duradola	Mean	Standard Deviation
Financial Literacy	8	8	7	10	8	7	9	8	7	10	Mr.	8,2	1,14
Education	8	10	5	10	8	8	5	8	7	9	Oladumola	7,8	1,75
Financial Liberalisation	8	8	4	8	9	5	9	7	5	5	Duradola	6,8	1,87
Budgeting	9	7	8	8	9	10	10	6	5	10	Mr.	8,2	1,75
Income levels	2	5	8	10	9	10	8	9	8	10	Oladumola	7,9	2,56
Savings Culture	10	8	9	5	4	10	9	10	9	10	Mr.	8,4	2,17
HIV/AIDS	9	3	6	9	3	5	9	6	7	2	Oladumola	5,9	2,64
Government Monetary Policy	9	5	5	8	3	4	5	5	5	9	Mr.	5,8	2,1
Interest Rates	9	8	6	4	9	6	5	7	7	9	Oladumola	7	1,76
Consumerism	9	8	9	6	5	8	9	9	8	10	Mr.	8,1	1,52
Debt	9	7	8	10	8	8	9	9	8	9	Oladumola	8,5	0,85
Economic Growth	9	7	6	7	9	5	7	7	5	5	Mr.	6,7	1,49

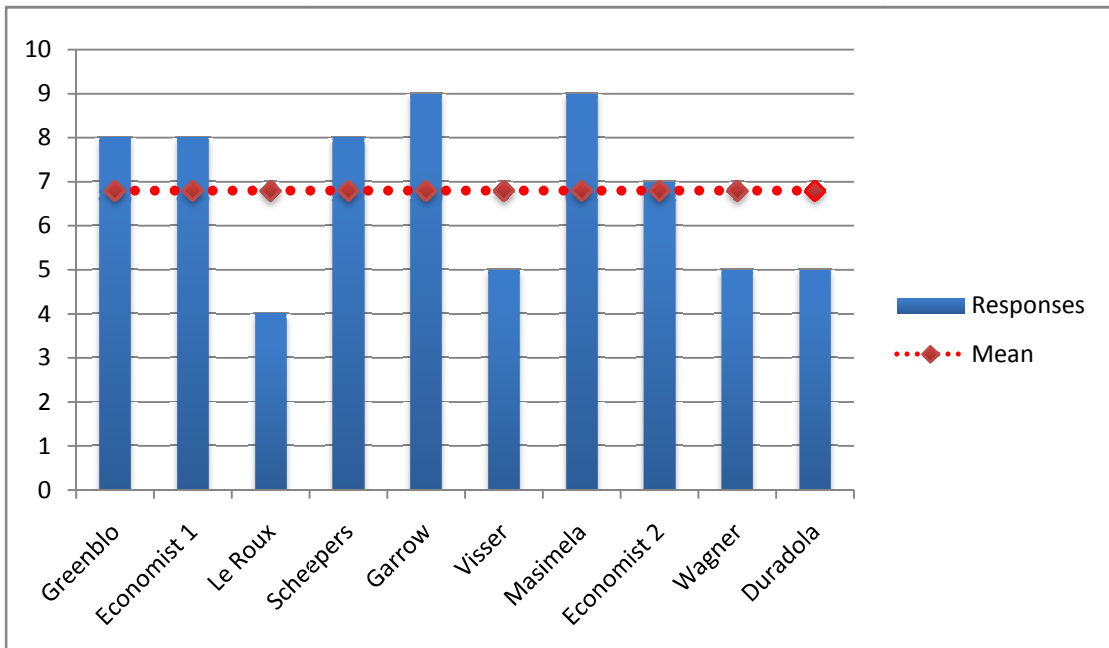
FINANCIAL LITERACY



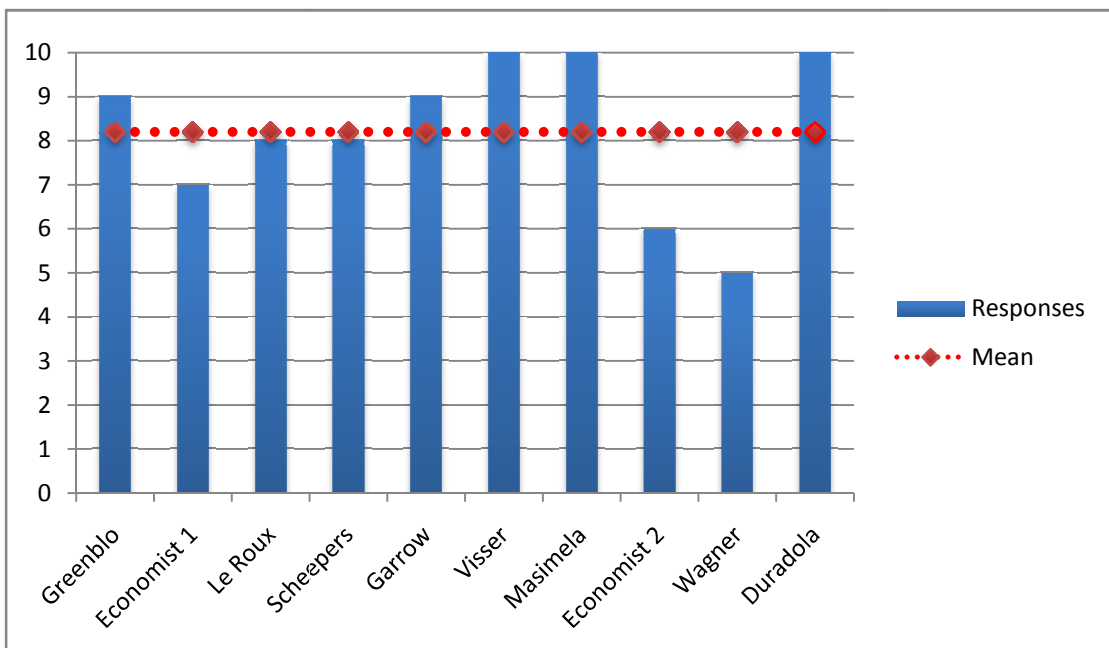
EDUCATION



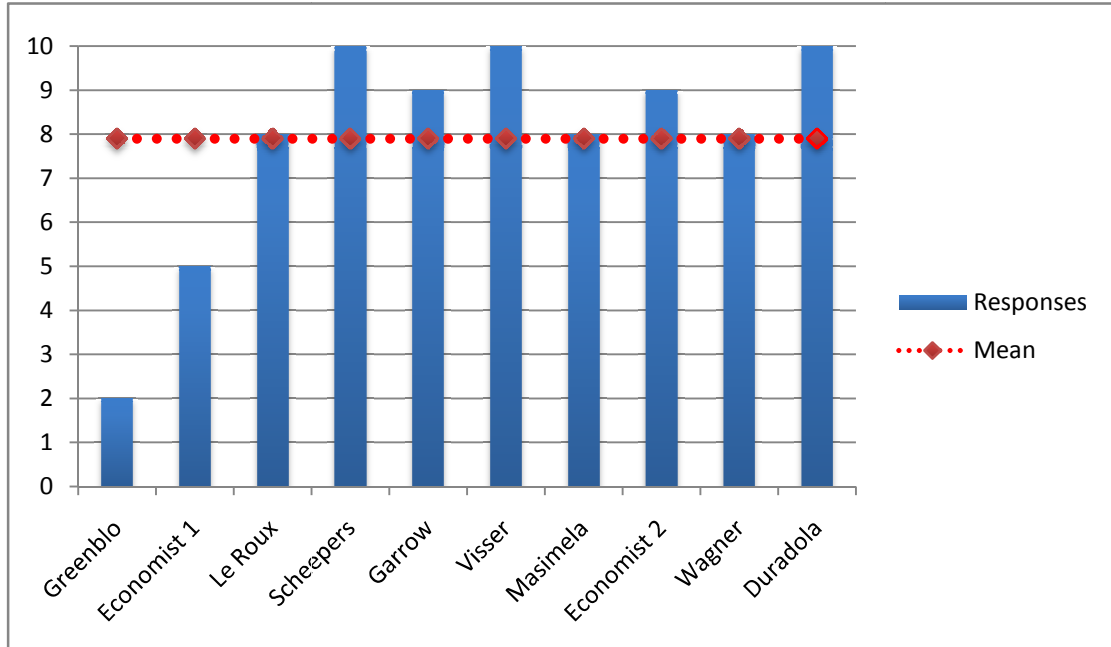
FINANCIAL LIBERALISATION



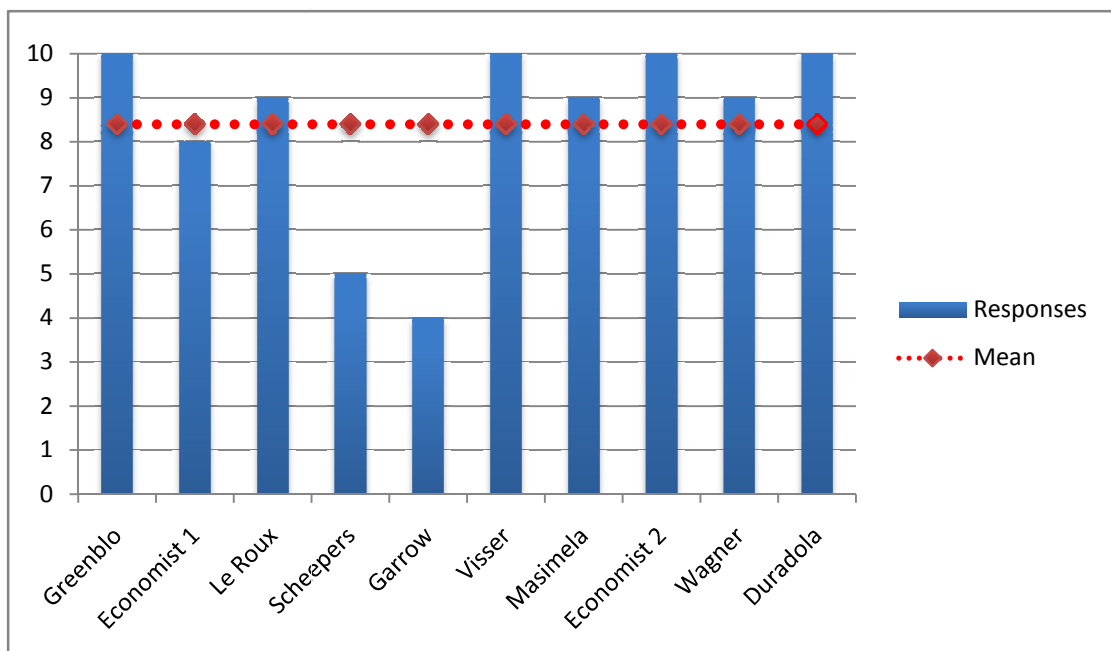
BUDGETING



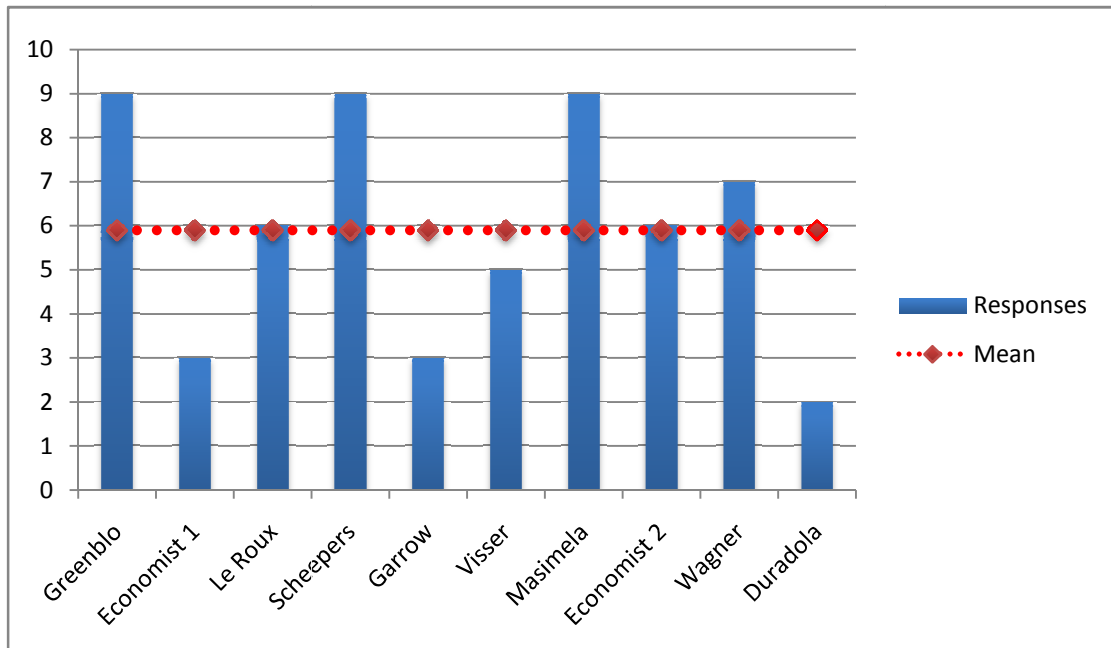
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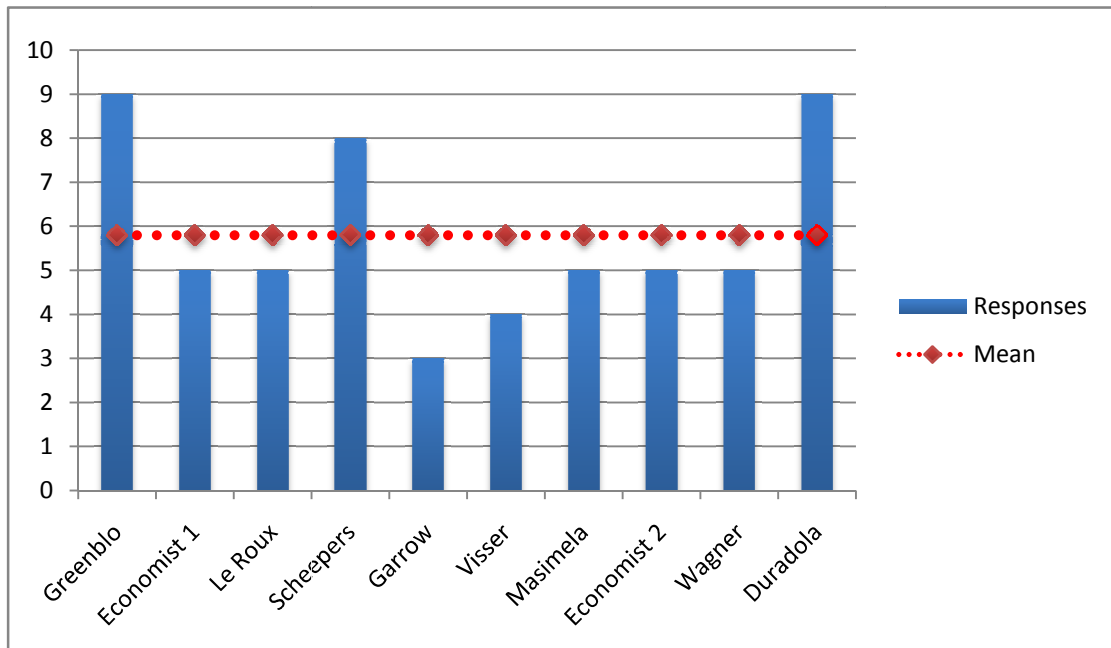
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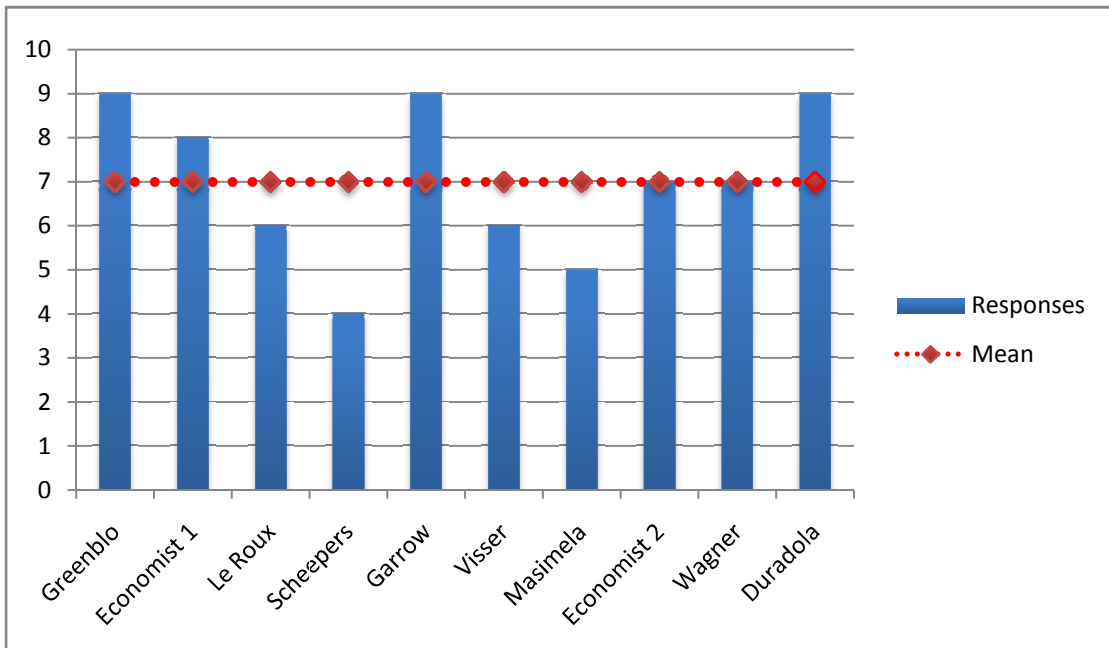
HIV/AIDS



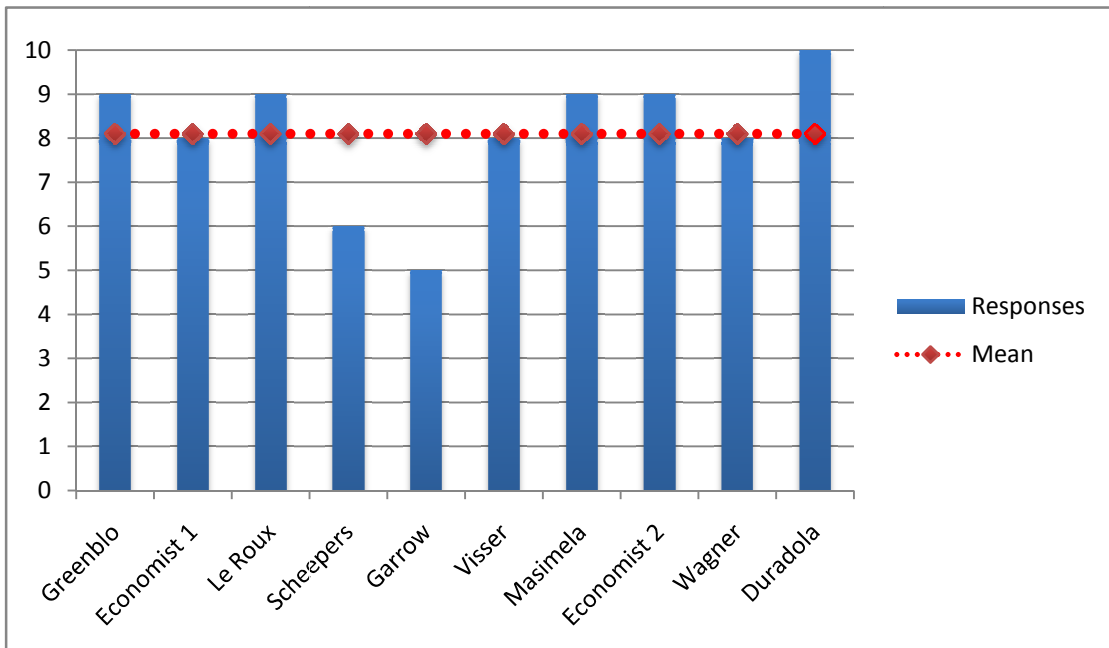
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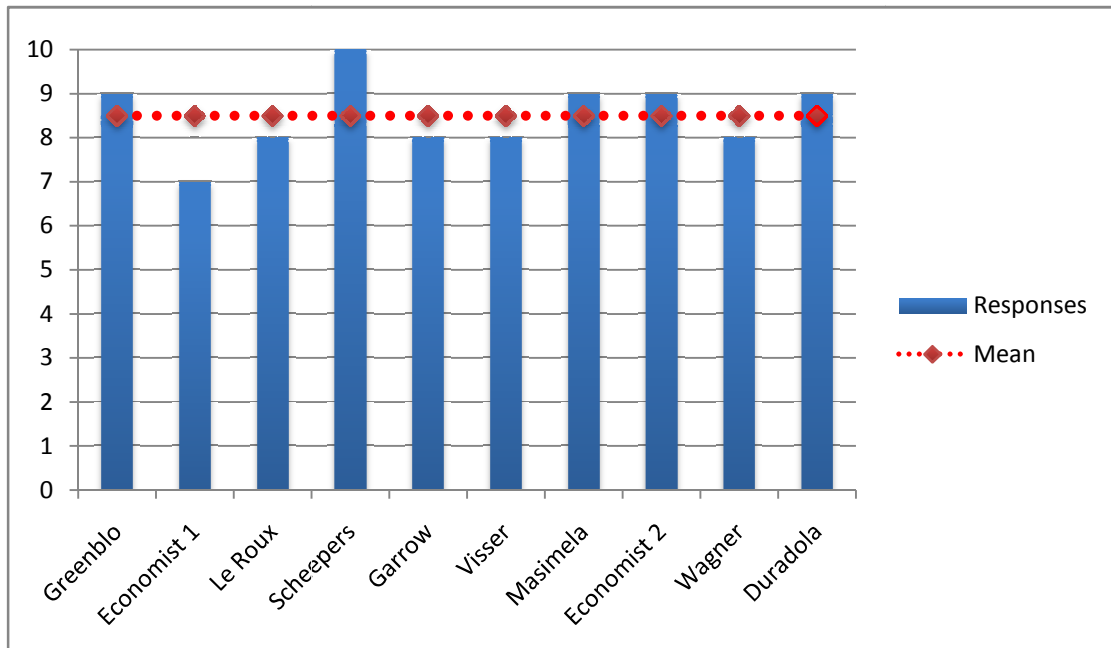
INTEREST RATES



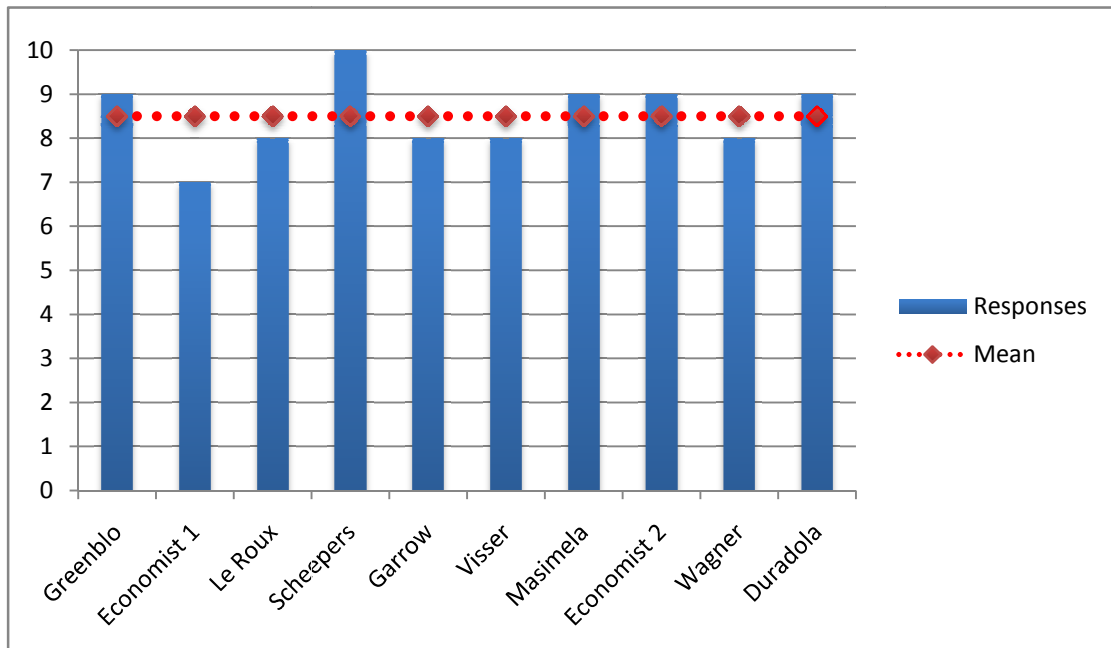
CONSUMERISM



DEBT



ECONOMIC GROWTH



QUESTION 4: *What measures should be taken to positively influence household savings?*

Respondent	Response
Mr. Allan Greenblo	Greenblo states that pension fund preservation should be made mandatory as a key measure in positively influencing household savings.
Economist 1	Economist 1 identifies a change in tax structures to encourage saving and make it worthwhile.
Mr. Kabous le Roux	Le Roux is of the opinion that tax rates on interest should be lowered, so as to positively influence household savings. Le Roux also suggests financial literacy be introduced to the schooling system, coupled with government campaigns to educate people on the benefits of saving to both the individual and the macro-economy.
Mr. Eric Scheepers	Scheepers states that education remains the key to unlocking savings for South African households
Mr. Colen Garrow	Garrow focuses on the issue on job creation and employment. Steps should be taken to tackle high unemployment with plans such as the Industrial Action Plan (IPAP-2) and the New Growth Path; both of which aim to create some 2.5 million and 5 million jobs respectively by 2020. Whilst Garrow believes these figures are over-ambitious, he is of the opinion that people will only increase their marginal propensity to save in as far as they have a job, and are confident of keeping that job. Garrow states that the employment hurdle is one that will not be easily overcome due to the fact that some 71% of those unemployed in South Africa are black, female and between the ages of 16 to 34. The Harvard Treasury estimated that if SA had an unemployment rate comparable to that of its emerging market peers, some 6 million people would be employed. Garrow believes that if this were the case, one could only imagine the impact it would have on savings.

Mr. Schalk Visser	Visser is of the opinion that utilising behavioural nudging is an innovative method to promote a culture of savings amongst South African households.
Mr. Elias Masilela	Masilela states that he believes that measures to improve saving should be prescribed by law and that the government should be responsible for legislating and educating consumers on the benefits of saving.
Economist 2	Economist 2 suggests that educating people and promoting a culture of saving and taking financial care of households are the positive measures that can be used to influence household savings.
Mr. Harold Wagner	Wagner states that monetary and fiscal policies need to be implemented that would have the effect of producing a stable economic environment and benign inflation. Wagner is also of the opinion that the tax rate of high earning households is too high in South Africa, and suggests a maximum tax bracket of 35% as opposed to 40%, which Wagner believes would improve savings behaviour of the wealthier households.
Mr. Oladumola Duradola	Duradola is of the opinion that government should increase public awareness of the positive effect of savings as well as create incentives to stimulate household savings.

QUESTION 5: What role can government play in improving household savings?

Respondent	Response
Mr. Allan Greenblo	Greenblo is of the opinion that Government should set a much better example through their own spending programs.
Economist 1	Economist 1 states that government should look to cut spending on intermediate goods and services. The government should also focus on rooting out corruption as this was a waste of taxpayer's money and negatively affected government spend. Economist 1 firmly believes that government needs to implement incentives for households to save.

Mr. Kabous le Roux	Le Roux states that government should take the lead in initiating savings incentives and suggests lowering the costs of savings products or even providing savings incentives free of charge. Furthermore, le Roux suggests government regulate banking practices to help drive down banking costs so that these savings may be passed on to the individual.
Mr. Eric Scheepers	Scheepers is of the opinion that government should encourage savings and not tax interest on savings for individuals in their personal capacity.
Mr. Colen Garrow	Garrow states that the government should provide tax incentives to encourage household savings, as well as savings products such as retail bonds that have an inflation-linked hedge.
Mr. Schalk Visser	Visser believes that government should increase the use of tax incentives in a way that makes it expensive not to save.
Mr. Elias Masilela	Masilela states that government should look to implementing policy that aims to provide economic growth and reduce dependency brought about by unemployment.
Economist 2	The Government could further contribute towards household savings improvement through the creation of jobs and promoting the concept of less of a welfare state. Economist 2 suggested government incentivise savings through the use of tax breaks to individuals to encourage and improve household savings.
Mr. Harold Wagner	Wagner believes that government can assist in improving household savings through the reduction of tax rates and provision of efficient services. This, he explained would assist in reducing expensive outlays on security and schooling. Wagner is of the opinion that the government should aim to stabilize the interest rates and exchange rates, which would ultimately lead to better economic growth and more income. Interest rates would have to be raised significantly higher than inflation in order to motivate households to change their spending behaviour and become “savers.”
Mr. Oladumola Duradola	Duradola is of the opinion that government should increase public awareness of the positive effect of savings as well as

	create incentives to stimulate household savings. An example suggested by Duradola would be that of a money-back scheme whereby government could match a percentage of savings contributions contributed by households, thereby furthering their savings contributions. Duradola suggested attaching a time limit for eligibility for withdrawal.
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QUESTION 6: *What role can business/the private sector play in improving household savings?*

Respondent	Response
Mr. Allan Greenblo	Greenblo singles out business and the private sector as being key role players in improving consumer financial education.
Economist 1	Economist 1 stated that less government interference in the private economy would have the resultant positive effect of creating further job opportunities in the private sector; which would be further conducive to improving household savings.
Mr. Kabous le Roux	Le Roux suggests the private sector can positively influence household savings through the introduction of simple affordable savings vehicles.
Mr. Eric Scheepers	<i>Not answered</i>
Mr. Colen Garrow	Garrow believes that business should provide payroll deductions for savings to help encourage savings amongst its employees.
Mr. Schalk Visser	Corporates can also contribute towards savings encouragement by reducing the costs of financial products and access to savings facilities.
Mr. Elias Masilela	Masilela singles out the private sector stating that business can assist with job creation in the economy, as well as provide facilities for direct deductions to savings vehicles for employees. Masilela also believes that the private sector should provide greater educational opportunities to factory floor workers.

Economist 2	Economist 2 stated that business and the private sector needed continued interaction and influence with the government on the importance of savings for households versus the alternative of the country becoming a semi-welfare state.
Mr. Harold Wagner	Wagner states that business and the private sector should aim to be as efficient as possible in its operations and therefore try and absorb some of the costs due to electricity and tolling.
Mr. Oladumola Duradola	Duradola believes business should create incentives at the place of work for employees to contribute towards savings.

QUESTION 7: What can individuals do to improve their household savings?

Respondent	Response
Mr. Allan Greenblo	Greenblo states that it is up to individuals to budget properly and make savings a priority in order to improve their own personal household savings.
Economist 1	Economist 1 stated that households should budget effectively to ensure greater contributions to savings.
Mr. Kabous le Roux	Le Roux advises that all individuals begin with a financial goal and set short, medium and long-term goals to assist in achieving the overall financial goal. Le Roux is a great advocate of the role of budgeting in actively saving and believes that budgeting helps account more accurately for finances.
Mr. Eric Scheepers	Scheepers states that individuals should budget effectively and not live above their means. Scheepers makes reference to the culture of instant gratification, instead of delaying a need as a means for individuals to try and improve their savings. Scheepers advises that individuals do not take on unnecessary debt such as credit cards or clothing accounts or regularly purchasing new vehicles.
Mr. Colen Garrow	Garrow states that the individual's ability to improve savings is dependant on the income category that consumers fell into. This would dictate the extent to which diversification is encouraged through the use of domestic savings schemes versus those kept offshore, particularly against a volatile and weakening South African exchange rate.
Mr. Schalk Visser	Visser believes that individuals should look to enforce a savings mechanism whereby a dedicated percentage of salary increases or future bonuses are automatically allocated to a low cost savings account.
Mr. Elias Masilela	Masilela states that it is the responsibility of the individual to become financially literate and in doing so; budget their income more efficiently. Masilela believes that individuals must also commit to living within their means.
Economist 2	Economist 2 stated that it is the responsibility of individuals to

	establish a culture of saving and taking responsibility for their continued future in the South African landscape.
Mr. Harold Wagner	Wagner states that individuals should aim to live within their means in an attempt to make sufficient provision for savings. Budgeting, was however only a successful tool to saving if the necessary level of education and financial literacy was present. Budgeting, stated Wagner, simply informed the individual of the financial dilemma of households. Wagner is of the opinion that a savings culture is an important factor affecting household savings and looks to the Asian cultures (India and China) who have a propensity to save.
Mr. Oladumola Duradola	Duradola states that households need to practice budgeting and financial discipline in order to improve their household saving.

APPENDIX 2: Letter of Consent



Research Office, Govan Mbeki Centre
Westville Campus
Private Bag x54001
DURBAN, 4000
Tel No: +27 31 260 3587
Fax No: +27 31 260 4609
mohunp@ukzn.ac.za

9 June 2011

Mr LW Darley (209511397)
Graduate School of Business
Faculty of Management Studies
Westville Campus

Dear Mr Darley

PROTOCOL REFERENCE NUMBER: HSS/0305/011M
PROJECT TITLE: Measures to improve household savings in South Africa

In response to your application dated 7 June 2011, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Professor Steven Collings (Chair)
HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE

cc. Supervisor: Dr M Chasomeris
cc. Mrs C Haddon