



Hidden Economic Burdens

"Bad debt is sacrificing your future day needs for your present day desires"

Suze Orman

1. Introduction

On 5th April, CPLO held a roundtable discussion on Hidden Economic Burdens¹. In post-apartheid South Africa, more than 11 million credit-active South Africans find themselves over-indebted. In 2013/2014, there was a significant increase of more than 1.1 million credit extensions. The accessibility of micro-loans in poorer communities is one of the main reasons for the increase in indebtedness since 1994.

There are two main forms in which people borrow: from the formal and the informal lending sectors. Formal debt includes property mortgages; store credit (mainly higher purchase and similar agreements); 'payday' loans from companies like Getbucks and Wonga; and unsecured lending from institutions like African Bank. Informal debt mostly involves borrowing money from *mashonisas*, or loan sharks, and pawn shops. Even though formal and informal channels of lending allow working-class South Africans access to debt, borrowers do not necessarily see progress in terms of their financial stability, even after long periods of time. For one thing, their disposable income is generally very low; for another, they become trapped in a cycle of high-interest borrowing which leads to ever greater indebtedness².

But while the above mentioned are well-known economic burdens, there are other, hidden economic burdens which are not so obvious, and which plague millions of South Africans today. This paper will look at some of these hidden economic burdens, most of which stem from the

legacy of apartheid: i.e. the lack of intergenerational wealth among black people; the asset deficit; the phenomenon of 'black tax'; spatial inequality; and the cost of transport.

There are also other factors at work: the HIV/AIDS pandemic; generalised poverty; and the reliance of extended families on single breadwinners. According to Eddy and Holborn, from 1996 to 2001, the proportion of households made up of non-nuclear families increased from 32% - 36%.³ Lastly, there is the question of conspicuous consumption – the practice of spending money that you do not have on superficial material possessions in a quest for status.

2. Intergenerational Wealth

Intergenerational wealth in black and white households differs tremendously. It is a norm in South Africa for most white people to inherit more or less substantial sums from their family's wealth, to benefit from trust funds, or in some cases to enter a family business. Even a small inheritance, compounded over a few generations, ends up providing enough to pay for higher education, for a deposit on a house, or for top-class schooling. Most young black South Africans find themselves at the opposite end of the spectrum, with no real intergenerational wealth, as their parents and grandparents were not able to acquire significant capital or investments. There is thus little or nothing for the emerging generation to inherit. Likewise, the chances of young black adults readily finding employment in successful family businesses are comparatively low.

3. The Asset Deficit

This is closely linked to the question of intergenerational wealth, but it differs in that it is not so much about inheritances and compounding wealth. More well-off families (in our context, mostly white) tend to have assets to spare: an extra car, enabling students to get to university quickly and cheaply; multiple computers in the home, facilitating study and schoolwork; all sorts of energy-efficient and cost-effective appliances; the latest smart-phones; etc.

And when the next generation sets up home, many of these assets are simply handed over, enabling the youngsters to devote more of their income to savings and investments, or to further qualifications, business opportunities, and so on.

4. 'Black Tax'

According to Ayibonga Cawe, "black tax is a colloquial reference to a range of experiences where disadvantaged groups, especially young black people, have found themselves having to clear invisible hurdles, to get access to certain opportunities; to get jobs, promotions, information, and quality education."⁴ The black tax experience hinders black graduates and professionals from advancing financially, as the need to provide for extended/non-nuclear families inhibits their ability to provide for their own financial needs or those of their immediate family. Mosibudi Ratlebjane explains that black tax is the extra money that black professionals spend every month to support their non-nuclear families. If you are lucky enough to have a job, it is seen as your duty to subsidise relatives who are less well off.⁵

It is reported that in some cases more than half of a person's salary is devoted to securing basic necessities for their family. This raises the fear that, even having gained a qualification and well-paying employment, the person concerned will never break free of a cycle of poverty.

Another manifestation of black tax is in the field of education. A family, or a whole community, may club together to support a student through college or university. Once qualified and employed, it is expected that he or she will support the next in line. This may be a temporary burden, lasting only a few years, but it nevertheless limits the person's ability to study further, to build a financial reserve,

or to save for important steps in life such as marriage or buying a house.

By way of an actual example, KM is a 22-year-old third-year BCom law student. He also holds a job and has to support his mother (a domestic worker), older sister (a former nursing student who, due to a lack of funds, was forced to drop out), and four nieces and nephews. At the end of every month, KM is obliged to contribute more than half of his salary to his family's basic necessities. KM expresses how he feels stuck in a vicious cycle of poverty and will probably need his children to provide for him when he is older.⁶

(Interestingly, there is disagreement about this phenomenon. Gugulethu Mhlungu, for example, believes that black tax is not limited to black people, but can be found in other communities. Furthermore, it makes the nature of the high cost of being part of a disadvantaged group unique to black people rather than an articulation of their lived experience.⁷

5. Spatial Inequality

Spatial inequality exists in urban areas as a direct result of the apartheid era's Group Areas Act. It also exists more widely across the country as a consequence of the 'bantustan' system introduced 50 years ago. According to Pippa Green, the poorest municipalities are without exception in South Africa's old apartheid homelands. While the actual apartheid laws may have gone, the power relationships continue to exist; as a result, "chiefs [in rural areas] allocate community land for mining rights"⁸ or sell it to developers, often at the cost of the communities that depend on such land. Also in the rural districts, the formal agricultural sector has seen a decline of 1.5 million jobs in the past decade. Despite land reform programmes, work in the agricultural sector is insecure due to the country's current drought, water crises, disease, and other factors, which add to unemployment and widen income inequalities.⁹

Urban areas in South Africa are fast growing, with 60% of the population under 35 living in them. However, the bulk of the black and working-class urban population still lives in low-density areas far outside central business districts (CBDs), as a result of apartheid city planning.¹⁰ The fact that most RDP housing is also located outside of CBDs and far from places of work also does not help the situation; instead, it perpetuates the struggle for people to get access to employment.

Having to live far from potential workplaces means that job seekers must spend huge amounts of money merely to look for work. They also have to spend time travelling, which deprives them of time with family and for recreation; requires them to organise, and pay for, child-care; and can have deleterious effects on their health. In most countries, lower income earners live in areas closer to industrial and commercial hubs, while wealthier people tend to live further out, and can more easily afford the financial and other costs involved. In South Africa, largely due to the strict segregation of residential areas under apartheid, the opposite applies.

6. Transport Costs

As already mentioned, our cities are low-density in comparison to many in Europe or Asia. They tend to spread out, with tens of thousands of single-storey dwellings being built on virgin land, instead of more densification taking place, with multi-storey or high-rise residential units. As a result, traveling to and from work for poor South Africans is extremely taxing on their wallets, time, and health, and – in addition – is generally unsafe.

According to Andrew Kerr, in 2013, the percentage of South Africans who travelled by car was 34.9% (drivers and passengers), train 2.8%, bus 6.1%, and minibus taxi 21.8%. Accounting for nearly 60% of commuting, it is clear that traveling by car and minibus taxi was the most popular. However, those commuters traveling by “car, minibus taxis or several modes of transport (a combination of bus, train and taxi), spend an average of 15% of their gross income getting to and from work”¹¹ which makes it the most expensive option. On the other hand, commuters who use public transport spend more time than those traveling by car and black commuters still spend more time traveling to and from work than white commuters. Thus, on average, the former spend 105 minutes, while the latter spend 69 minutes.¹²

Moreover, traveling via public transport such as minibus taxis, trains and buses places an additional strain on people’s health. With lots of people crammed together in a confined space, illnesses such as tuberculosis (TB), influenza, and colds can easily spread, resulting in added costs for poor households.

7. Stokvels

Partly as a result of some of these hidden burdens, South Africans have also developed innovative ways of making economic progress; one such is the stokvel. A stokvel is a savings/investment fund, unique to South Africa, whereby members usually contribute an agreed amount on a monthly basis, and are entitled to draw a lump sum periodically, usually on a rotation basis. The significance of stokvels is that they allow many people to save in an informal manner. (They arose at a time when the black population was effectively excluded from the formal banking system.) According to the National Stokvel Association of South Africa (NASASA), stokvels have an estimated economy of R49 billion in South Africa, with over 800 000 different stokvel groups in existence.¹³ First National Bank now offers a specialised stokvel account, which is indicative of the importance of the system. More remarkably, while most South Africans use stokvels as an informal means of savings to buy basic necessities, Nthabeleng Likotsi used her stokvel savings to start her own bank, as she wanted to create something with long-term investment returns. As a result, Nthabeleng raised two million rands through her stokvel savings and aims for her bank to be recognised by the Reserve Bank of South Africa.¹⁴

8. Conclusion

Post-1994, many poor and/or black South Africans are still plagued by both well-known and hidden economic burdens, many of which are the legacy of apartheid. On the one hand, well-known economic burdens are noticeable in that we are able to budget for them – rent, water, and electricity. On the other hand, hidden economic burdens are those that are less obvious; we do not necessarily budget for such things as black tax and the asset deficit. One way to deal with hidden economic burdens is stokvels. However, more needs to be done by government when it comes to policy-making. More low-cost housing in CBDs and near industrial areas would help, as would a real effort to improve the country’s public transport infrastructure, to subsidise all forms of public transport, and to reform the formal and informal lending sectors in ways that would make them more supportive of low-income earners.

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¹ This paper is largely based on the Hidden Economic Burdens roundtable discussion hosted by CPLO on April 5th 2016. At this event, the three guest speakers were Mr Ayabonga Cawe: economist and chairperson – Rethink Africa; Ms Pippa Green: author and researcher – REDI; and Dr Andrew Kerr: senior researcher – DataFirst, UCT.

² Cawe, A. (2016). CPLO – Hidden Economic Burdens roundtable discussion.

³ Eddy, G. and Holborn, L. (2011). *Fractured families: A crisis for South Africa*. Retrieved April 26 2016, from <http://www.moneyweb.co.za/archive/fractured-families-a-crisis-for-south-africa/>

⁴ Cawe, A. (2016). CPLO – Hidden Economic Burdens roundtable discussion.

⁵ Ratlebjane, M. (2015). *How 'black tax' cripples our youths aspirations*. Retrieved April 19 2016, from <http://mg.co.za/article/2015-10-29-how-black-tax-cripples-our-youths-aspirations>

⁶ Ibid.

⁷ Mhlungu, G. (2015). *Black tax is not real*. Retrieved April 19 2016, from <http://city.press.news24.com/Voices/Black-tax-is-not-real-20150508>

⁸ Claasen, A. cited in Green, P. (2016). CPLO – Hidden Economic Burdens roundtable discussion.

⁹ Ibid.

¹⁰ Green, P. (2016). CPLO – Hidden Economic Burdens roundtable discussion.

¹¹ Kerr, A. (2016). CPLO – Hidden Economic Burdens roundtable discussion.

¹² Ibid.

¹³ NASASA. Introduction (homepage). Retrieved April 19 2016, from <http://nasasa.co.za/site/>

¹⁴ eNCA. (2016). *How one Ekurhuleni businesswoman started a bank stokvel style*. Retrieved April 29 2016, from <https://www.enca.com/money/how-one-ekurhuleni-businesswoman-started-a-bank-stokvel-style>

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