SOCIALISING FINANCIAL INDEPENDENCE – SAVINGS MONTH 2010

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The setting of today's presentation is very interesting…

We have just come out of staging a successful World Cup, where we show cased the capabilities of the South African economy and society. We have been able to display to ourselves and the world, that when the will is there we can realise our goals.

This is an important discovery for today's topic. There has been numerous questions about what long term value the World Cup provides? There has been growing concerns about the potential consumption raising effects of the event, which militate against desired savings in South Africa. However, this is a short term consideration.

We have just emerged from the season of global volunteerism, in the name of Madiba. In this regard, we were able to display that we are not only capable of doing what matters to us, but also to those around us.

As a result of the World Cup, we have had to delay the launch of Savings Month, a pivotal point in South Africa's almanac. We were criticised for this delay. People argued that it was critical that these events coincided, to curtail the consumption behaviour associated with the football event.

Savings Month is an event that deals with a subject that has been elusive for South Africans, for a very long time, and continues to be so. That is the subject of saving and financial management, both at the individual and household level. With the advent of the current global financial crisis, we have learnt that we are where we are, as economies of the world, because of poor financial literacy in the developed world. How much more, in South Africa? That justifies the criticism levelled against the delay of Savings Month.

This criticism is recorded against a backdrop of a long anticipation of government's intentions, in the area of social security and retirement reform.

We all know the extent of poverty in the country. We also know that the majority of South Africans going into retirement, do so with inadequate savings. This is because the average South African experiences a contribution gap averaging 5%, a gainful employment gap of 15 years (owing to job instability and high unemployment) and dismal investment returns on their savings. This results in the majority retiring with a less than 30% replacement ratio.

In simple terms, that means, on average, a South African will experience a 70% reduction in standard of living, when they enter their retirement lives. Similar economies enjoy replacement ratios in excess of 60%, more specifically, 75% in Chile.

The global picture is gloomier after the financial crisis.

There is one common lesson in the above observations – and that is, we are social beings. … faced by significant economic and social challenges, some of which can only be tackled as a collective.

Whilst we go about delivering on our various responsibilities, Savings Month reminds us of our social responsibilities – namely, aiding those around us to save and be financially liberated. This is not only for the betterment of that individual, but the entire society.

But why is saving important?

It is for a plethora of reasons. Some of these are what we may term "common sense", as defined by the CEO of the IDC during the launch of Savings Month, on the 20th of this Month. However, many of these are not so common, in the minds of many South Africans. That is where the challenge starts.

Amongst the factors that keep the pulse of the Savings Institute going, include the need to:

i. Reduce individual and household vulnerabilities;
ii. Give bargaining power and confidence to the consumer;
iii. Reduce long term dependency on the state;
iv. Ensure that our citizens retire comfortably;
v. Secure personal dignity and pride;
vi. Manage down unfunded state liabilities which are costly to the taxpayer - and potentially crippling to the fiscus;
vii. Develop an arsenal of resources to fund requisite investment, at the economy level;
viii. Reduce reliance on foreign savings, which expose us to unnecessary premia and expose the economy to huge future capital outflows or reversals. The corollary of this is that we will be an economy characterised by poor reinvestments and structurally low growth – in the long term;
ix. By deduction, high domestic savings will result in structurally low interest rates, in the economy, which is what we always beg for, when the MPC assembles.

The list is long.

Put together, these objectives are critical in dealing with the social imbalances facing the South African economy.

All the above observations dictate that we need to go back to basics, educate and fully appreciate the underlying link amongst saving, investment, growth, employment and human dignity.

Yes, it is ultimately about human dignity.

Saving in its own right is not an end. It is merely a means to an end. But, I have to hasten and say that, it is the most stable and predictable means. However, this “means”, can only be accessed if we create the right environment.

After all, ones marginal propensity to save (MPS) is inherently and positively linked to income. However, in South Africa this fundamental relationship, established generations ago in economic theory, is seriously challenged. Rising household incomes have existed side by side with declining savings – which is in itself, an interesting paradox.

That says to us something new and unique needs to be done in our society. That highly desired “dream for the dignity” is an elusive target. It will forever be so, so long as we do not change fundamentally.

The next biggest headline following the World Cup in South Africa, has been a sobering one – hardly after the Vuvuzela’s and the great pomp had died down. It is the continent's ability, or otherwise, of meeting the MDGs.

Whilst this is globally understood as the Millenium Development Goals, in the context of today's subject and future challenges, I strongly urge that we see and embrace these as "Minimum Dignity Goals". In order to make these meaningful to the average South African, it is essential that we do not merely see these as just a global fad, but embrace and identify with them as a domestic challenge, at the level of the individual and household.

This is because South Africa is characterised by underlying imbalances that raise the level of urgency.

It should not be surprising that the economies of the Far East are enjoying significantly higher rates of economic growth and faster reductions in poverty than South Africa. Underpinning this are healthy savings rates over sustained periods.

This is well articulated in the latest OECD Country Survey on South Africa, released in July of 2010. How opportune, coming out during our Savings Month. (Leave aside for a moment, the views on the value of the rand raised in the same document.)

Leading the pack amongst the East Asian economies, is China which records a savings rate of slightly above 50% and a corresponding fixed capital formation rate of 40%. The rest, average around 30%. It is on the basis of this foundation that the East Asian economies enjoy high rates of growth and comfortable labour participation rates.

The same is observed amongst OECD economies.

What sets South Africa apart, from amongst comparator countries, are the abnormally high levels on unemployment and low labour participation rates. We do not have to do any creative work to show that this results in high dependency ratios.

As established earlier, clearly, the savings rate in South Africa cannot be expected to be impressive.

The OECD report points directly at this dual imbalance (namely, savings and the labour market) to explain the poor performance of our social economy.

These imbalances are, in turn, mirrored by notable current account deficits, recording 4.6% of GDP in the first quarter of this year from 2.9% in the last quarter of 2009. Of course, it can be argued that the current account is no longer a constraint to the growth of the South African economy, but still remains a barometer of how well we do on the savings front as well as the country's global competitiveness.

These are the issues that Savings Month aims at reversing. Hopefully that is how we can get each and every South African to sit back and think about how they can contribute towards undoing these imbalances. How they can rally behind the MDGs (now redefined) in the most meaningful way.

We need an attitude that says, “Do it for me, not just for the UN!” “The dignity is mine, not that of the UN.”

Savings Month is a clarion call to all South Africans to roll up their sleeves to secure the dignity of society and that of the country. We do not want to live in a decaying economy. Neither do we want to retire behind a begging bowl.

How are we to respond to this?

i. We all have a challenge to educate;
ii. We all have a challenge to generate a labour absorbing economy. One that makes the dream to increase our savings a reality. We need to generate, not just jobs, but stable jobs. I will not go as far as talking about decent jobs, if we cannot even guarantee the basics of job security;
iii. We all have the challenge to ensure that the domestic savings, necessary to fund the requisite investments, are generated;
iv. We all have the challenge of taking up our social responsibilities as individuals and corporates in South Africa. Even the most conservative of institutions such as the SARB, have a social responsibility, as displayed in the Governor's Savings Moth statement, where she says, “National Savings Month is always important to South Africans, and in particular to us at the South African Reserve Bank, because it gives us an opportunity to speak to families and consumers, rather than to economists, investment analysts and financial-sector executives.”
v. If you missed your opportunity to serve your 67 minutes, you still have an opportunity to redeem yourself. SASI has a community drive under the banner of “Teaching Children to Save” (TCTS). This happens every year and this year it takes place during the period 23-27 August. In this initiative, SASI together with the Banking Association take financial practitioners to every school, in all corners of the country, to deliver a lesson on saving. As part of TCTS, you have an opportunity to educate a South African child by going into a classroom next to you, on the said dates, to deliver a lesson on saving, why and how to save?

It is critical that a good savings culture starts at an early stage. Our children are the leaders of tomorrow. It is imperative that these future leaders take on this responsibility forthwith. This will safeguard their future and build certainty for them to strive in later years.

SASI's war cry, "Ligotshwa lisase manzi" is pertinent here. Directly translated, it means, "Bend it whilst it is still moist." This is well echoed by the Holy Book, where in Psalms 22, 6-7 it says, "Train up a child in the way he should go and when he is old he will not depart from it. The rich rule over the poor and the borrower is servant to the lender".

Help these children claim their future. Allow them to own this future.

This reminds me of what President George Bush once said, which is critical to today's subject. He says "...there is no human dream stronger than the dream of having something you can call your own. ... It is the promise of independence and dignity." This was preceded by a global campaign driven by the arch-architect of the Chilean retirement reform, Jose Pinera who said, "The world would be a better place, if every worker were also an owner of retirement capital…"

These are profound words indeed, all from respectable sources.

In conclusion, if we are to deal with poverty in South Africa the "savings-to-dignity" framework is critical.

Educating our people on the long term value of saving is fundamental. Mind you, it is not for saving sake but for the wide and structural positive attributes that come with it. We know it is not easy. The past nine years of the existence of the Savings Institute, have been a challenging experience. Changing the psyche of a nation cannot be a walk in the park.

However, it is instructive to mention that, the ultimate objective will have to be guided by a well thought-out social objective function, for South Africa. But this is yet to be spelt out by the all important National Planning Commission, which I am fortunately or unfortunately a part of.

That social objective function may well be, the “Minimum Dignity Goals”.

I thank you.