

We should encourage investment, not savings

IN CASE you did not notice, it was national savings month last month. Now that it is over, let me say something that has been lingering at the back of my mind: a savings month is a bad idea.

The economics of saving is thought to work like this: savings go into the pot of money an economy has to invest to expand itself — the more savings, the more investment, the more economic growth.

But it is not the savings that matter — it is the investment. You can hoard as much cash as you like under your bed, but it will not help the economy one iota.

Consumers are very bad savers. Currently, on average, we are spending more than we earn, making up the difference by spending out of savings or taking on new debt. But I suspect it is not as bad as we think.

The savings rate is calculated by the Reserve Bank as the difference between spending and income — what people do not spend, it is assumed, must be saved. But there are basic problems with this measurement.

Some “spending” may well be a form of savings. Cellphone airtime is saving, as are funeral policies, but I doubt they are reflected as savings in the national statistics. With insurance, payouts count as income in the statistics, while premiums are expenditure. But that ignores the benefits even when there is no payout from a policy — risk reduction is an invisible benefit.

I suspect that in the large “second economy” there is a great deal of saving. Studies show that semi-formal workers like hawkers are good savers because they have to defend themselves from financial vulnerability. But as they are unbanked, savings go under the mattress.

There is a lesson from India with its tendency to save by hoarding gold. The saving rate in India has been high for decades — double South Africa’s 15% of GDP. But the savings pile was not put to productive use.

More than a decade ago, the Indian government came up with a strategy to unlock the pent-up savings by creating gold savings bonds — returns matched holding the metal, but capital could be accessed.

It was a clever way to work with the culture to achieve a positive economic outcome.

Which is why national savings month makes a wrong point — a national investment month is more what we need: invest in term bank accounts, shares, government retail bonds or other innovative instruments that work to effectively access the savings practices we already have. How about a cellphone airtime savings account — earning interest on your minutes?

Last month I was asked to join some bankers visiting township schools to talk to kids about the importance of saving, but I had other commitments. I would have gone if I could have — but would have had the niggling thought that it is irrational for young people to save.

Economists tell us we are (or should be) rational utility maximisers over our life spans. Saving is all about delayed consumption. The trade-off for foregoing consumption today is getting to consume more in the future (that is the whole idea underlying the payment of interest).

But the more urgent your need to consume now, the less the relative value (in utility terms) of the extra consumption that will result from saving.

And when you are young, having things right now is important — you do not have much in the first place, and you have your whole life to use it.

Plus, your earnings lifecycle is just beginning. The more money you have, the less important the next rand is to you. That is what economists call declining marginal utility. Once you are able to satisfy your basic wants, being able to buy more and more things is no longer as satisfying as the first thing.

That means it becomes easier to delay consumption the more you earn; when you are young, you do not earn that much. If we were rational, we would spend our money at the beginning of our careers, but save proportionately more as our income increased — thus maximising utility.

But we are often not rational (just ask the credit card industry, which exists because most customers do not settle their bills in full every month). As most of us operate on habit, not thought, a savings culture may well be the best thing for our kids.

Get them into the habit now. But if they come back from their economics class with a good argument for why it does not make sense to save now, best you listen.

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