



**Keeping up with the Khumalo's:
An Analysis of the Indebted African Middle Class in South
Africa between 2008-2017**

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Abbreviations

AA	-	Affirmative Action
AIDS	-	Acquired Immunodeficiency Syndrome
ANC	-	African National Congress
BEE	-	Black Economic Empowerment
BBEEE	-	Broad Based Black Economic Empowerment
COBN-		Cost of Basic Needs
GDP	-	Gross Domestic Product
HIV	-	Human Immunodeficiency Virus
KZN	-	KwaZulu-Natal
NCA	-	National Credit Act
NIDS	-	National Income Dynamic Study
NCR	-	National Credit Regulator
PPP		Purchasing Power Purity
SALDRU	-	Southern African Labour & Development Research Unit
SARB	-	South African Reserve Bank

Chapter 1: Introduction

1.1 Background

The financial sector in South Africa has undergone regulatory change since the early 1990s, resulting in the rapid extension of credit to consumers (Cronje & Roux, 2010). This provided new markets for credit providers, as the micro-credit sector grew significantly, contributing towards the extension of credit in a less constrained manner, particularly to those who had been previously disadvantaged (Daniels, 2001; Prinsloo, 2002).

The economic growth enjoyed by South Africans, particularly during the first 15 years of the democratic era, has meant new realities characterised by an increasing middle class (especially the African middle class) who engage in consumerism (Nieftagodien & Van der Berg, 2007). There is an increased emphasis on the use of credit in households and it is therefore, the availability of credit that makes it easier for households to spend (Southall, 2016). Increasing credit availability induces households to consume immediately rather than postponing consumption for the future (Prinsloo, 2002).

The reliance on debt is growing in South African households where, according to a report by the World Bank in 2015, the use of credit is outpacing employment (Demirguc-Kunt et al., 2015). Household finances have become more precarious and savings rates have dropped as disposable income declines due to increasing debt servicing commitments (Aron & Muellbauer, 2000). In an attempt to address the plight of high levels of over-indebtedness, exacerbated by reckless credit practices and abuses, the National Credit Act No.34 of 2005 (NCA) was passed, which set new parameters for granting credit in an effort to reduce the scourge of over-indebtedness (De Wet et

al., 2015). Despite the introduction of this regulatory framework, De Wet et al., (2015) found in their study that it did not succeed in reducing consumer's vulnerability to becoming over-indebted and this remains a critical problem in society.

The precariousness of indebted households is evident as the 2015 World Bank report (Demirguc-Kunt et al., 2015) notes that South Africa had the world's highest proportion of adult borrowers in 2014. According to the report, the loans are sourced from formal and informal institutions. People were borrowing mainly from friends and family, micro-lenders and, to a lesser extent, financial institutions (Demirguc-Kunt et al., 2015). The Quarterly Bulletin report from the South African Reserve Bank, (SARB 2009, 2018) indicates that the ratio of household debt to disposable income has gradually declined from 79% to 71% between the third quarters of 2009 and 2018 respectively. While there has been a contraction in the debt ratio, it remains high, implying that South African households have become seriously indebted with much of their disposable income going towards debt repayment, which poses risks to the economy.

The National Credit Regulator (NCR, 2018) has revealed that the outstanding total gross debtors book of consumer credit for the third quarter of 2018 was R1.82 trillion. Further statistics from the NCR (NCR, 2008, 2018) show an increase in credit granted from R122.54 billion to R133.6 billion¹ between the third quarters of 2008 and 2018, with banks contributing the largest share of credit granted. The expansion of credit facilities affects household behaviour indirectly over time. This is shown by the rise in the number of consumers seeking credit facilities in response to the relative ease of gaining access to the credit market which, ultimately affects consumption patterns.

¹ The increase is reflected in constant 2018 prices.

Other studies, such as the 2017 Sanlam Benchmark Survey (Lamprecht, 2017), indicate that more than half of South Africa's middle class are unable to meet their debt commitments consistently, with short-term debt making up the most significant proportion. Short term debt includes credit cards, personal loans and store cards. This, according to the survey, not only impacts the quality of life of debtors, but it also hampers productivity levels in the workplace. While difficult economic conditions have contributed towards the financial difficulties that individuals face, the culture of consumerism has also played a significant role, particularly within the African middle class, as consumption is seen as a means of demonstrating wealth (Southall, 2004).²

1.2 The Role of Debt in the African Middle Class

Credit allows households to buy now and pay later at the expense of future income. Prospective homeowners are afforded the opportunity to purchase a home, as well as other important assets in a shorter time frame. Economic theory, specifically the life cycle hypothesis, considers the accumulation and repayment of debt over time (lifecycle) to be a standard process in which a household smooths out their consumption. It is thus useful to know the factors that influence households to enter into debt and how their debt is serviced, especially for households that are experiencing financial distress.

A household's future income can be impacted by negative economic shocks to their current income.³ This can trigger repayment difficulties for some households. Whereas, for other households, debt repayment difficulties can stem from unwarranted consumption and excessive use of available credit. This can result from a lack of

² Hereinafter African and black will be used interchangeably and neither term is inclusive of any other racial group except the African population.

³Negative economic shock includes job loss, sudden illness or injury, death of the household head or of a family member.

information or from trying to signal one's wealth status (Southall, 2016). There are also households who do not have access to formal credit and turn to informal credit providers such as *mashonisa* (loan sharks) who are on the border of legality and charge consumers extraordinarily high-interest rates. Informal credit providers can take advantage of the vulnerability of consumers leading to untenable levels of over-indebtedness. Recovery then becomes difficult and heightens the risk of defaulting on existing obligations and perpetuating the cycle of debt.

Household debt can be categorised as either consumer debt or non-consumer debt. The former relates to debt that originates from households that use debt for the consumption of goods or services. Consumer credit can take the form of revolving credit, personal loans and instalment debt, whereas non-consumer debt refers to households borrowing to start or run a business, or to buy a house or land (Prinsloo, 2002).

The primary concern with consumers becoming significantly indebted is their vulnerability to becoming over-indebted. Studies have reported the middle class as the most immediately vulnerable to debt in South Africa (see Southall, 2016; Zizzamia et al., 2016; Schotte et al., 2018). This is of concern, as it can stifle the growth of the middle class, leading to undesirable economic outcomes. It is therefore crucial for the middle class to expand in size and significance, particularly the African middle class.

According to James (2019), the African middle class is overwhelmed by debt partly because they have access to some form of collateral which is required by formal credit institutions. The African middle class has been particularly identified as being the main contributor to consumer spending in South Africa, particularly the new entrants to the African middle class. This makes an analysis of the African middle class

pertinent, especially those who experience persistent pressures on their financial wellbeing and lack an adequate savings buffer.

1.3 Objectives

This dissertation aims to evaluate the indebtedness of the African middle class firstly by using survey data from the National Income Dynamics Study (NIDS) between 2008-2017 (wave one to wave five, respectively). The second means of evaluation is through qualitative measures gleaned from in-depth interviews that have been conducted. These interviews have allowed for the gathering of nuanced insights that complement the data analysis.

The main objective of this study is to better understand indebtedness in African middle class households. To achieve this, we will investigate how the middle class is defined in South Africa and the composition thereof. This will aid in identifying the proportion of the African middle class that are indebted. Moreover, it will also reveal the types of debt affecting the African middle class. Interviews with members of the middle class will provide further insight into the factors that lead households to become over-indebted. This will also assist in formulating appropriate policy recommendations.

The dissertation is organised as follows: Chapter 2 details how the middle class is defined in developing versus developed countries, and explains the definition that will be used in this dissertation. Chapter 3 contains a review of the relevant literature on debt, followed by a descriptive analysis of household indebtedness. Thereafter, Chapter 4 details the qualitative methodology used, followed by case studies of indebted members of the African middle class. Lastly, Chapter 5 presents a summary and conclusion.

Chapter 2: Who is the real South African Middle Class?

2.1 Introduction

South Africa has witnessed an increase in the upward mobility of a few, while many remain plagued by low income and unemployment and, in many cases, are dependent on government cash grant pay-outs for their survival. There have been changes to the patterns of income distribution post-apartheid - specifically in the composition of the ethnicity of the elite. There is a high concentration of low-income earners accompanied by a small group of high-income earners, leaving a residual number of middle class income earners, resulting in a significantly high level of income polarisation (Sulla & Zikhali, 2018). This points towards an income distribution in South Africa that is defined by high inequality (Visagie, 2013a). The evidence suggests that an expanding middle class can have a significantly positive impact on economic growth, enabling the strengthening of democratic institutions and helping to improve social cohesion. In contrast, countries plagued by weak economic growth rates, with highly unequal patterns of income distribution, often have a weak middle class (Southall, 2004; Solimano, 2008; Burger et al., 2014; James, 2019).

There has been a sizeable amount of literature assessing poverty and inequality in South Africa. However, since 1994, little work has been done on identifying the role played by the middle class. Most studies that have identified the middle class in South Africa, have done so either using income or occupation as a form of measurement (Rivero et al., 2003; Finn et al., 2013; Visagie & Posel, 2013; Burger et al., 2014).

How the middle class is measured can affect policy design and the setting of policy targets. For instance, the outcome of redistributive economic policy that aims to uplift the middle class will vary according to which definition of the middle class is used

(Visagie, 2015).⁴ Public policy interventions, such as affirmative action (AA) and Black Economic Empowerment (BEE), have empowered the previously disadvantaged and thus moved a substantial portion of African South Africans into the middle class (Mattes, 2015).⁵ In addition to this, education opportunities for Africans have improved post-1994. Coupled with public policy, this has increased opportunities for Africans at middle and managerial levels within the public and private sectors alike (Mattes, 2015; Southall, 2016).

There are arguments that a larger middle class can be seen as indicative of lower levels of income inequality, as it implies lower polarisation, and would act as a buffer between the rich and the poor (Burger et al., 2014). In order to achieve rapid upward mobility, there needs to be strong and consistent economic growth. This growth needs to be shared so that it may move households up the social hierarchy (Birdsall, 2015). While an expanding middle class is a positive development, the rise in the middle class (especially in developing countries) can be deceptive, since the broader middle class potentially includes those at risk of falling back into poverty if an unexpected adverse shock hits the household.⁶ Birdsall (2015) referred to this particular group as the ‘strugglers’, as they are neither poor nor ‘income secure’ and, consequently, are not a stable component of the middle class.

Given the economic, political and social significance of class in South Africa’s emerging democracy, it is vital to determine who constitutes the African middle class and what this means for economic policy. This would assist in identifying policies to accelerate

⁴ Further expanded on in in section 2.3.1 below.

⁵ BEE was to be too narrow in scope and thus expanded to Broad Based Black Economic Empowerment (BBBEE). Furthermore, BEE was also criticised as only benefiting a narrow spectrum of those who are considered to be previously disadvantaged.

⁶An adverse household shock includes, but is not limited to: sudden unemployment, household robbery resulting in loss of assets, loss of uninsured dwelling to fire or floods, crop failure, a sick child and a family or friend, on whom a household is financially dependent, falls ill or dies.

upward mobility in South Africa. A growing middle class can drive democracy by holding public officials to account for their actions and lobbying for business-friendly policies that foster competition (Birdsall, 2015). Although, where the middle class is small and significantly dependent on the government (directly and indirectly), it will see its interests more aligned with the elite and less with that of the poor (Birdsall, 2015). During the apartheid era in South Africa, the African middle class aligned itself with the interests of the working class to help bring about economic and political emancipation from the oppressive apartheid regime.

However, the attempt to identify the middle class is hindered by contrasting definitions of class and how exactly it is measured. Moreover, due to the high levels of inequality in South Africa, it makes defining the middle class challenging (Finn et al., 2013). The general understanding in the literature is that ‘middle class’ refers to a group of people who are in the middle range of an income distribution, but can also be classified according to their wealth, property ownership and occupation (Southall, 2016).

This chapter will, therefore, explore definitions that target developing, rather than developed, countries presenting a critical overview of the various empirical approaches, using data collected in the first to the fifth waves (2008-2017) of the National Income Dynamic Study (NIDS). Ravallion (2010) defines the middle class in the developing world as those who are not poor by developing country standards, although they may still be poor by developed country standards. Those who are not poor by developed country standards make up what is considered to be the Western middle class (Ravallion, 2010). The current literature presents a range of contradictory definitions regarding South Africa’s middle class.

The remainder of this chapter will be structured as follows: Section 2.2 will explore the relevance of the middle class in South Africa, both theoretically and from a political economy perspective; this entails exploring various literature references to do with social stratification. Section 2.3 will review various approaches to defining the middle class and assess the strengths and limitations of the approaches. In section 2.4, we will profile the South African middle class, based on the vulnerability threshold approach with regard to its relative growth, size, racial composition and occupational profile. Lastly, section 2.5 concludes the chapter.

2.2 The Theoretical and Political Relevance of the South African Middle Class

The rise of the African middle class has attracted significant interest in post-apartheid South Africa. Parts of the media have referred to the black middle class as so called ‘black diamonds’. This group of consumers are portrayed as enthusiastic consumers of luxury products, such as the latest cars, electronic goods, computers, tablets and cell phones (Southall, 2016). ‘Black diamonds’ are characterised as people who are eager to flaunt their newly found social status by signalling their newly acquired wealth (The Economist, 2018a).

Defining the middle class is further complicated because apartheid stunted the growth of the African middle class, resulting in a polarised and highly unequal country (Zizzamia et al., 2016). The country’s growth rates, post-apartheid, are seen to be highly polarised, as growth occurred for those that at the bottom and top of the income distribution whereas the middle of the income distribution experienced relatively low growth which, in part, explains the high levels of inequality. Furthermore, apartheid restrictions impacted on the social class configuration of the African population as they

inhibited the development of African professional and entrepreneurial activity, affecting the African middle class in particular (Southall, 2016).

Before 1994, racially motivated exclusionary policies meant that historical paths of the middle class elements within these communities were different. While it is unarguable that all races (except for the white population) were discriminated against, they were, however, oppressed differently. Looking at (the then) Natal (currently known as KwaZulu-Natal), the differing racial oppression fostered the development of an Indian merchant class, which grew more rapidly than the African trading middle class, which was subjected to much harsher restrictions that stunted their growth prospects (Southall, 2004). The oppression to which the African population was subjected has affected its current representation within the broader middle class. Furthermore, the African middle class has been impacted by the economy opening up in the post-apartheid era. This introduced a new set of factors that are shaping the African middle class including, but not limited to, globalisation and democratisation (Southall, 2016). The freedoms provided by post-apartheid South Africa enabled better work and living conditions for the African middle class.

Southall (2016) argues that the notion of social class is at the core of explaining the development of the modern world. It is, therefore, useful to analyse the two major theories of class, stemming from the work of Karl Marx and Max Weber (Seekings, 2003; Burger et al., 2015).

2.2.1 Marxian Analysis

Class is explained by Marx as shared structural positions within the social organisation of production (Burger et al., 2014). In other words, at the heart of class is the arrangement of ownership and control that determines relationships formed around

production (Seekings, 2003). The emphasis is on the engagement between two main social classes, the bourgeoisie (upper class) and proletariat (lower class). The bourgeoisie owns and controls the means of production while the proletariat sells their labour to the bourgeoisie. Marx perceived the relationship between the classes to be an exploitative one.

Marx delineates a third class, known as the petty bourgeoisie, which is the substratum of the (haute) bourgeoisie and can be seen as the middle class which he referred to as the transitional class (Burger et al., 2014). The petty bourgeoisie comprises small business owners, shop-keepers, artisans and managers who work alongside their employees, unlike the haute bourgeoisie. Marx viewed the petty bourgeoisie group as a transitioning class; if they are successful they would eventually become part of the bourgeoisie and, if not, they would be absorbed into the proletariat (Harris, 1939; Rivero et al., 2003; Southall, 2004; Burger et al., 2014).

Southall (2004) discussed the origins of the African middle class in South Africa using a neo-Marxist approach. During the time of apartheid, Southall (2004) characterised the beginnings of the black middle class as “mission-educated elites who engaged in early constitutional protest politics” (Southall, 2004: 5). This early black middle class is identified as the petty bourgeoisie; as their educational achievement was limited, professional, clerical and skilled avenues of employment were closed to them. The petty bourgeoisie was thus, more intimately tied to the black working class as opposed to their class equivalent over racial lines.

2.2.2 Weberian Analysis

Conversely, Max Weber views class from a structural-functionalist perspective, whereby class is seen as shared life chances associated with opportunities for creating

income in the market, determined by factors such as income, occupation and education (Rivero et al., 2003; Seekings, 2003). Weber differentiates economic class from social class thus: “A social class makes up the totality of class positions within which individual and inter-generational mobility is easy and typical” (Weber, 1948: 302).

Weber points to four main social classes that can be found under capitalism. Social mobility is occasional and difficult between classes, but is relatively common within classes, according to Weber. The classes are the dominant entrepreneurial and propertied groups, the petty bourgeoisie, workers with formal credentials (middle class) and those who fall behind them with their labour power as their only asset (working class). Similarly to Marx, Weber also delineates between those who have access to property and land and those without, who earn their living through work (Weber, 1948; Burger et al., 2014).

According to Weber, differences observed in social status can arise as a result of ownership of the means of production, but can also come about due to other factors such as skills or credentials. Thus, Weber divided those who did not own property into two social classes, separating those who are salaried and have qualifications (the middle class) from those who do not have qualifications (the working class) (Seekings, 2009).

Furthermore, Weber distinguishes between class and status. Class and status were seen as closely related; where class is based on economic interest, status leans towards prestige and honour (Seekings, 2009; Southall, 2016). It is implied that differing lifestyles correspond with differential social status.

Weber also differentiates between the established class of property owners from the rising middle class who were white-collar employees lacking property, unlike Marx who

viewed the emerging middle class as a temporary class that would eventually be absorbed into the proletariat. Weber argued that institutions of higher learning create a “universal clamour for the creation of educational certificates in all fields make for the formation of a privileged stratum in bureaus and offices” (Weber, 1948: 241). Based on this, the middle class can be categorised as a social group, mainly comprising professionals, businessmen, and clerks, both in the public and private sector and civil service (the emerging middle class), including those individuals who are self-employed with similar income (known as old middle class).

A Weberian analysis of class was conducted for South Africa between 1949 and the early 1970s by Seekings (2009) and, similarly to Weber, he saw life chances as being formed by both class and status. However, status in pre-democratic South Africa was determined by a 'caste system' of racial profiling. The progression of workers, was not just impeded by lack of ownership of property but by a set of laws based on race that prohibited workers from selling their labour freely and being adequately compensated for skills acquired through educational institutions.

The black bourgeoisie formed part of the superior occupational echelon of African society (Seekings, 2009; Southall, 2016). A study conducted by Kuper (1965) in the 1950s depicted the African bourgeoisie as educated professionals, traders and senior government and municipal clerks who had higher incomes and better life chances and, in general, a better quality of life when compared to the rest of the black population. The author argued that, due to racial discrimination, the treatment received by the African bourgeoisie was inferior to that of other races, irrespective of class position. This presented a contrast with the prestige that the African middle class held within the African population. Thus, as emphasised by Kuper (1965), the life chances of the African middle class were delineated by race.

The ascent to power by the African National Congress (ANC) in 1994 symbolised the end of the acrimonious tie between race and class (Visagie, 2015). Burger et al. (2014) acknowledged that the rapid increase of the black middle class is anticipated to assist in undoing the association between class and race. However, notions of identity may take time to adjust to the new realities. Consequently, racial integration and social cohesion may develop with a substantial lag.

2.2.3 Composition of the Middle Class in South Africa

The concept of class has evolved significantly since the times of Marx and Weber, but education, social status, income, wealth and shared life perspective have remained integral to how class is defined (Burger et al., 2014). From a sociological stance, the middle class can be explained according to their economic function. Class has been described and measured utilising a vast array of indices including, but not limited to, “measures of income, household assets, education level and occupation” (Visagie, 2015: 4). The measurement of trends and the size of the African middle class differ based on whether the analysis is defined according to occupation, income or self-identification.

Rivero et al., (2003) analysed occupational composition by race from 1994 to 2000. They found that the middle class grew during the first few years of democracy - from 8.8% of the population to 11.9%. Interestingly enough, they also find that the black component of the middle class expanded most rapidly, although only at the highest occupational level, whereas growth was more moderate in the middle sector occupations. This growth is as a result of increased numbers of Africans working in high-level occupations - particularly in professional categories (Visagie & Posel, 2013).

Southall's (2004) paper suggests that occupational categories that contain a large contingent of the middle class (which includes management, executives, and

administrative, professionals, associate professionals, technicians and clerical sales) have seen a substantial increase in the employment of Africans. Southall further shows the middle class disaggregated into upper and lower categories, thus identifying an increase in income accruing to the upper middle class, while the population share of the lower middle class decreased (Southall, 2004). This is as a result of the widening pay gaps within occupational categories.

Visagie and Posel (2013) examined the development of the middle class in South Africa using the National Income Dynamic Study (NIDS), 2008, by comparing the middle-Income Strata and Affluence approaches. The middle income Strata approach identifies the middle class using an income threshold of between 50 to 150% of the median. In terms of the Affluence approach, Visagie and Posel (2013) used a lower bound and upper bound threshold of R1 400 and R10 000 per capita per month respectively, derived from occupations associated with the middle class. The study estimates that, across the two approaches, the middle class comprises 31.6% of the population when defined by the middle Income Strata, compared to 20.4% of the population when defined by Affluence approach. Additionally, the author presents a racial composition of the middle class and finds that households who fall under the middle Income Strata are mostly African with a racial share of 83.4% of the middle class population, whereas the share of white households only comprises 2.8% of the middle class population. Under the middle class defined by Affluence approach, African households make up 49.8% of the middle class and the white households 31.1% of the population.

Burger et al., (2014) also used the NIDS 2008 dataset but examined class using the polarisation approach, which defines classes as composed of homogenous social clusters using the underlying concepts of identification and alienation. This approach falls within the Income Strata approach. This paper finds that both the lower and middle

classes are mostly African, 92% and 70% respectively, but the African share of the upper class is only 29%.

In another analysis, Burger et al., (2015) define a middle class based on consumption patterns of households who lead a middle class lifestyle and can afford to allocate income to discretionary consumption, once the basics have been met. The approach is income-based and only uses the lower bound threshold of R53 217 per capita per annum in 2010/2011 money terms when defining the middle class. They indicate that an upper bound threshold is not used because it leaves very few of the ‘very rich’ at the top of the distribution. According to this definition, the middle class only constitutes 15% of the population and, of that, only approximately 6% make up the black middle class. The authors further delineate between the black emerging middle class and the black established middle class, which are 2.97% and 2.57% of the population respectively.

In a study of annual household surveys between 1993-2012, Kotze et al., (2013) does not specify a upper bound threshold but utilises a base threshold of R25 000 (US\$3 250) per capita per annum (in 2000 prices) and estimated that the black share of the middle class constituted approximately 41% in 2012. The absolute size of the black middle class grew from 0.35 million in 1993 to approximately 3 million in 2012.

It is evident from the literature that there has been significant growth of the African middle class. This implies that there have been important shifts in the social composition stemming from the nature and preferences of those who exercise greater purchasing power (that is, purchase goods and services like cars, houses and insurance, being able to send children to better quality schools and moving into affluent suburban areas) (Mattes, 2015).

2.3 Definitions, Data and Methodology

In this section, we explore various definitions of the middle class used in the literature, ultimately arriving at the one that shall be used for analysis using panel data from the National Income Dynamic Study (NIDS) conducted by the Southern Africa Labour and Development Research Unit (SALDRU) (SALDRU, 2018a,b,c,d,e). Currently, there are five waves of data available, each spaced approximately two years apart; the first wave was released in 2008 and the latest in 2017. NIDS is a nationally representative household survey which collects detailed information on household income and expenditure.⁷ It started initially with a sample of 28 355 individuals in approximately 7 300 households and, in 2017, the sample size increased to 39 434 across 10 800 households (of which, 2 016 were new participants added to the sample as a top-up) and 20 133 were part of the original 2008 wave one study. The top up sample in the fifth wave was included to compensate for the increasing levels of attrition over the years, specifically targeting wealthier individuals and households. This means that empirical results that include individuals or households at the top end of the distributions will be upwardly biased. In other words, the results will show an over-estimation of those at the top end of the distribution.

Existing concepts of social classes can be grouped into approaches that define the middle class according to objectively defined criteria versus a self-identified subject category based on self-reported class status. This raises the prospect that there may be a divergence between objective and subjective social class categories. The objective approach in economics defines the middle class based on measurable relative or absolute income thresholds (cut-off points). These approaches will be discussed in more detail in the following section relating to their applicability to developing nations

⁷The figures mentioned are deflated using the Statistics Southern Africa (Stats SA) consumer price indices and adjusted to March 2017 using 2012 as the base year per the NIDS do-file.

2.3.1 Comparison between Absolute and Relative Definitions

Much of the literature on defining and measuring the middle class has been rooted from the vantage point of developed countries. This literature typically defines the middle class as comprising individuals who form the middle strata of the income distribution, or as a group that is also expected to have an absolute standard of affluence identified using a threshold of household income (Thurow, 1987; Easterly, 2001; Seekings & Nattrass, 2005; Ravallion, 2010). There are numerous reasons as to why one would be interested in identifying who falls within the median of an income distribution. Visagie (2013) indicated that “the relative growth of the share of total income of those in the actual middle of the income distribution leads to greater political stability, to a citizenry with higher levels of human development (including better education and health) and even to higher levels of economic growth” (Visagie, 2013b:2).

Research investigating the middle class in South Africa has mostly defined middle class according to an absolute level of affluence, with the aim of capturing how the composition and size of this group have changed post-apartheid. This is an alternative way of identifying the middle class, but the main controversy is defining the thresholds of those that fall in the middle. The cut off points differentiate between the lower and upper class, thus leaving the residual of a middle class. In other words, those who are above the poverty line would form the lower boundary and the upper boundary would be the start of those who are considered ‘rich’. Zizzamia et al., (2016) state that it is important to determine if those who are above the poverty line fall by default into the middle class, or if there should be some buffer group to separate those who can satisfy their most basic needs, but remain close to falling into poverty from a more

economically stable middle class. What follows is a discussion of the most significant existing relative and absolute definitions and their usefulness in defining social class.

2.3.2 Relative Income Threshold

This approach selects households that sit in the actual middle of the distribution of household income in a country. The middle class is defined as a residual category apart from the lower and upper classes, thereby requiring two cut off points. These points are usually defined based on percentiles, median or mean values (Burger et al., 2014).

Easterly (2001) has defined the middle class as those who occupy the second through to the fourth quintile of the distribution; thus the bottom 20% (first quintile) constitutes the lower class and top 20% (fifth quintile) the upper class, leaving the residual to be the middle class. Solimano (2008) used the 30th to the 90th percentiles (deciles 3 to 9) to define the middle class. In the empirical analysis, Solimano breaks down the ‘broad definition’ to lower middle class (deciles 3 to 6), and upper-middle class (deciles 7 to 9), the first two deciles and the tenth decile are identified as the ‘poor’ and the ‘rich’ respectively. In South Africa, Finn et al., (2013) used income decile groups 4 to 7 (40th to 70th percentiles) to define the middle class, groups 8 and 9 define the upper class and the last decile (ten) identifies the top income group.

While Davis and Huston (1992) used a symmetric range around the median of the income distribution ranging between 50 – 150% of the per capita household income, other authors have estimated this range to be wider. On the other hand, Birdsall et al., (2000) used a narrower threshold of 75 – 125% of the per capita median income, a definition that was proposed by Thurow (1987).

Although the middle-income stratum will not form the basis of our definition of the middle class, it will be analysed to see the implications it may have for the size and growth of the African middle class. This approach does have value, as the changes in the middle of the income distribution would assist in assessing if growth has reached the average South African post-democracy. However, this approach is open to criticism because, in developing economies, there is often a concentration of the population at the lower end of the income distribution and the middle are likely to still be poor in absolute terms. Furthermore, the population share of the middle class does not change over time, which means that the middle class does not expand as incomes rise (Visagie & Posel, 2013; Zizzamia et al., 2016).

2.3.3 Absolute Income Threshold

The middle class has often been identified according to an absolute income range that is considered appropriate for the middle class, associated with certain patterns of expenditure and ownership. Middle class affluence in the literature is typically determined using a threshold of household income.

Ravallion (2010) defines middle class in the developing world as those who are not poor by the standards of the developing countries, but poor by those of developed countries. In other words, the middle class is defined as those who are no longer poor by international standards. The author uses the median value for 70 national poverty lines as the lower bound which is, \$2 per person per day, and the upper bound is constructed from the US poverty line, \$13 per person per day at 2005 PPP. Similarly, Banerjee and Duflo (2008) define the middle class as those living on between \$2 and \$10 a day.⁸ The main contributing arguments for defining the middle class just above the poverty line, is that these individuals are still considered to be better off than

⁸Throughout this paper, the income thresholds refer to 2005 PPP \$ per person per day, unless otherwise stated.

others in society who are below the poverty line. However, Birdsall (2015) identified households living on between \$4 and \$10 per capita to be ‘vulnerable’ and more susceptible to falling back into poverty. Other scholars support this notion and go on to argue that defining the middle class as those with an income above the subsistence level lacks analytical purpose, as they are still at high risk of falling into poverty (Ravallion, 2010; López-Calva and Ortiz-Juarez, 2014; Zizzamia et al., 2016).

In order to have a more robust definition, other studies use an absolute threshold that is far above that of the poverty line. López-Calva and Ortiz-Juarez (2014) use a lower bound per capita income of \$10 a day and an upper bound of \$50 a day. The authors argued that those individuals who are considered to have a low risk of poverty should be counted as the middle class because not all non-poor households are part of the middle class; some are still vulnerable and are at risk of moving back into poverty. Thus, they proposed the vulnerability approach and found that \$10 a day is associated with a 10% probability of being in poverty over time. The \$10 a day lower limit is consistent with other studies (see Birdsall, 2010, 2015; Kharas, 2010).

Birdsall (2010) used a lower bound threshold of \$10 a day which is consistent with other scholars, but caps the upper bound at individuals who fall below the 95th percentile of the national income distribution. The lower boundary is meant to identify those who are too poor to be in the middle class in any society, and the upper boundary limits the upper class to the top 5% of households in the national income distribution.

In South Africa’s case, Zizzamia et al., (2016) adopt the ‘vulnerability’ approach when defining the middle class. They argue that the middle class is an ‘empowered class’ which means the “individuals or households are sufficiently secure against falling into poverty” (Zizzamia et al., 2016: 12). This study bases its vulnerability threshold on

work done by Budlender et al., (2015), who developed the 2015 SALDRU Cost of Basic Needs (CoBN) poverty line. The SALDRU upper bound poverty line is claimed to be the most recent for South Africa and is calculated to be R1 283 per capita per month (in January 2015 prices), which is equivalent to approximately \$5.30 per day in 2005 PPPs (Zizzamia et al., 2016).⁹

Following the vulnerability approach, Zizzamia et al., (2016) derive a four-tiered class stratification of South Africa. It comprises the poor (at the bottom), vulnerable class, middle class and the elite (at the top). They define the middle class by setting the vulnerability threshold at R3 104 per capita (January 2015 prices), which is approximately \$13 per day, and the upper bound threshold at R10 387 per capita (January 2015 prices), equivalent to roughly \$43.30 with the residual comprising the middle class.

The vulnerability approach applied by López-Calva and Ortiz-Juarez (2014); Zizzamia et al., (2016) can be seen as a ‘productionist’ approach, as the risk to poverty is estimated based on observable household characteristics, including education, occupation and employment status. This ‘productionist’ approach is based on a class analysis that aligns with a sociological understanding of the dynamics of class. Visagie and Posel (2013) also use a ‘productionist’ approach, suggesting an affluence measure of the South African middle class based on a threshold of R1 400 to R10 000 per capita per month (in 2008 money terms); this is equivalent to \$8 to \$58 a day. The thresholds

⁹The difference in estimated poverty lines presented by Budlender et al., (2015) and Statistics South Africa[Stats SA], (2017) is in the estimation of the upper bound. The upper bound reported by Stats SA is R 992 per capita in 2015 prices, whereas Budlender et al., (2015) estimate a poverty line of R1 283 in 2015 prices. The study conducted by Budlender et al., (2015) is said to address a few methodological shortcomings in previous poverty lines constructed for South Africa (Zizzamia et al., 2016).

are calculated according to households where the highest income earner is in an occupation that corresponds with the middle class.¹⁰

2.3.4 The Size of the South African Middle Class: According to Rival Definitions

In this section, we compare different well known definitions which have been referred to up to this point (relative and absolute income thresholds) and assess their impact on the size and growth of the South African middle class from 2008 - 2017.

Figure 1 illustrates various income thresholds used by opposing rival approaches to defining the middle class according to local and international literature. Most evident are the studies that use a relative approach to define the middle class. Using the SALDRU upper-bound poverty line, these classify scores of South Africans, who would be considered poor by national standards, as middle class and, are unable to meet the expenses of their basic needs, thus remaining poor.¹¹ This is also applied to those who lie just above the international \$2 a day poverty line.

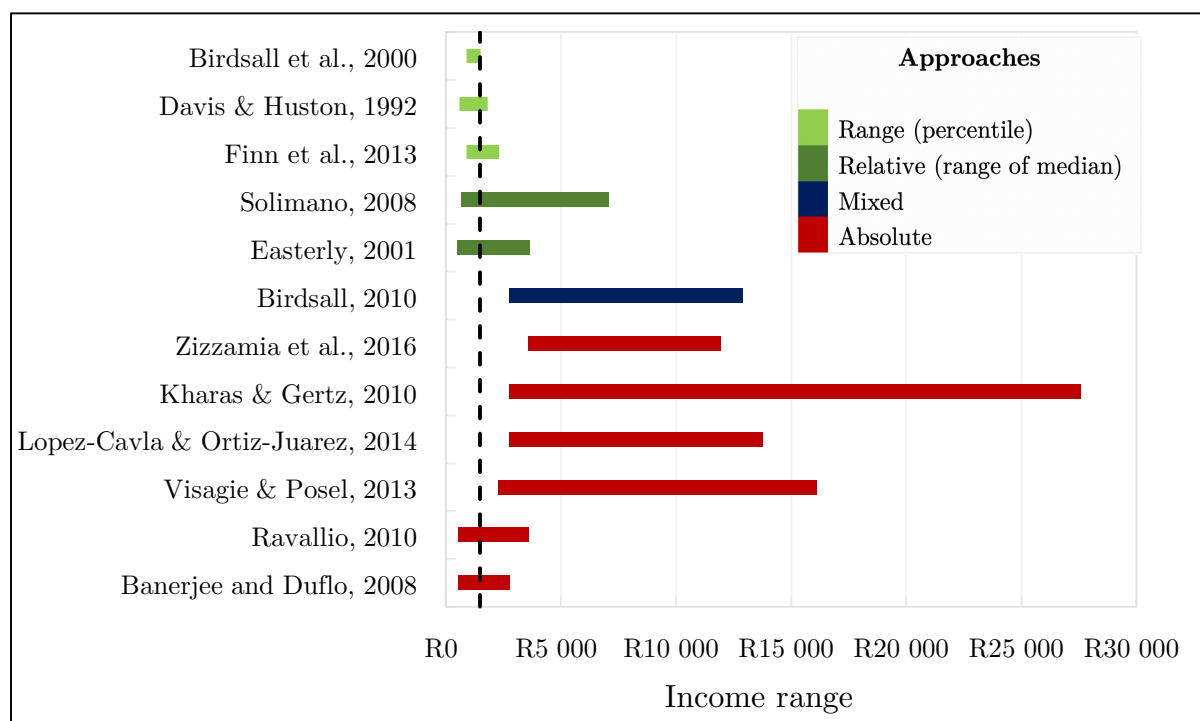
Easterly's (2001) frequently quoted definition includes in the middle class those who do not have enough money for food. In contrast, studies that use an absolute threshold, which is far above the SALDRU poverty line, have a bigger proportion of the population that is considered to be part of the middle class. There is some overlap between absolute definitions provided by Kharas (2010); Visagie and Posel (2013); López-Calva and Ortiz-Juarez (2014); and Zizzamia et al., (2016).

¹⁰Middle class occupations include managers, senior officials, legislators, professionals (such as teachers and nurses), and associate professionals, technicians and clerks- white collar professions. Whereas, working class occupations would include plant and machinery operators, craft and related trade workers, skilled agriculture and fishery workers, service and market sales workers and all elementary occupations (Visagie, 2013b). (see Weber, 1948)

¹¹This still holds true even when using the Stats SA upper bound poverty line which is R1 138 in 2017 money terms (Statistics South Africa, 2017).

Overall, there is little overlap across the various definitions. This is corroborated by Visagie and Posel (2013), who confirm that those in the actual middle of the national income distribution and the South African middle class, defined according to an absolute standard of affluence and lifestyle, bear little resemblance. The extent of the divergence is indicative of whether or not the middle class definitions are contextualised to developing as opposed to developed countries (Ravallion, 2010).

Figure 1: Income range comparison of middle class definitions by various authors



Source: Author's own estimates based on middle class thresholds from literature.

Notes: The vertical dashed black line is the SALDRU upper-bound poverty line in 2017 monetary terms (Budlender et al., 2015). Conversion between international \$ and South African Rand uses the PPP conversion factor for private consumption (LCU per international \$) provided for by the World Bank. In 2005, international \$1 (PPP) was equivalent to R4.57. All thresholds have been converted to 2017 prices using Stats SA latest consumer price index (Statistics South Africa, 2018). Birdsall (2010) sets the upper threshold at the 95th percentile of the household per capita income distribution.

Table 1 shows the different sizes of the South African middle class between 2008 and 2017, according to different definitions. It is quite clear that different income boundaries result in significantly different estimates when analysing the size of the

middle class. Using the relative (percentile) approach leads to a bigger proportion of the population being defined as middle class. For example, Easterly (2001) and Solimano (2008) both point to a middle class comprising 60% of the population.

In contrast, there is a degree of overlap when considering the lower boundaries of the middle class, defined by an absolute level of affluence and lifestyle (Kharas & Gertz, 2010; Visagie & Posel, 2013; López-Calva & Ortiz-Juarez, 2014).

The size of the middle class is larger for the definitions that include those at risk of falling into poverty, because they include households that are either close to or fall below the poverty line. This indicates that, when income thresholds are set too low, they are subject to misreport downward mobility among those above the upper threshold as the growth of the middle class (Zizzamia et al., 2016).

It is also noteworthy that most of the thresholds show that, between 2008 and 2010/11, the South African middle class contracted. This can be explained by the global financial crisis, indicating the economic precariousness of the middle class population during this period.

Table 1: Size of the South African middle class based on absolute and relative definitions

Definition	Authors	Boundaries ^a	Middle class population share (%)				
			2008	2010/11	2012	2014/15	2017
Relative (percentile)	Easterly, 2001	$R495 \leq y(x) \leq R3\ 613$	60.0	60.5	60.0	60.0	60.0
	Solimano, 2008	$R678 \leq y(x) \leq R7\ 046$	60.0	59.9	60.0	60.0	60.0
	Finn et al., 2013	$R898 \leq y(x) \leq R2\ 314$	30.0	29.9	30.0	29.9	30.0
Relative (range of median)	Davis & Huston, 1992	$R605 \leq y(x) \leq R1\ 814$	39.1	35.8	38.0	39.6	38.1
	Birdsall et al., 2000	$R907 \leq y(x) \leq R1\ 512$	18.7	16.8	19.6	18.5	18.1
Absolute	Banerjee and Duflo, 2008	$R551 \leq y(x) \leq R2\ 757$	40.7	38.4	45.9	51.5	50.4
	Ravallion, 2010	$R551 \leq y(x) \leq R3\ 583$	43.6	41.1	49.7	56.0	55.0
	Lopez-Cavla & Ortiz-Juarez, 2014	$R2\ 757 \leq y(x) \leq R13\ 785$	13.8	16.0	16.4	17.6	18.4
	Visagie & Posel, 2013	$R2\ 254 \leq y(x) \leq R16\ 103$	18.1	18.5	19.8	23.0	24.0
	Kharas & Gertz, 2010	$R2\ 757 \leq y(x) \leq R27\ 571$	16.1	18.0	18.5	19.7	22.4
	Zizzamia et al., 2016	$R3\ 577 \leq y(x) \leq R11\ 971$	13.7	11.8	11.1	13.3	14.5
Mixed	Birdsall, 2010	$R2\ 576 \leq y(x) \leq R14\ 432$	11.9	13.7	14.8	15.6	18.7

Source: Author's own calculation based on NIDS waves 1-5 using post-stratified weights.

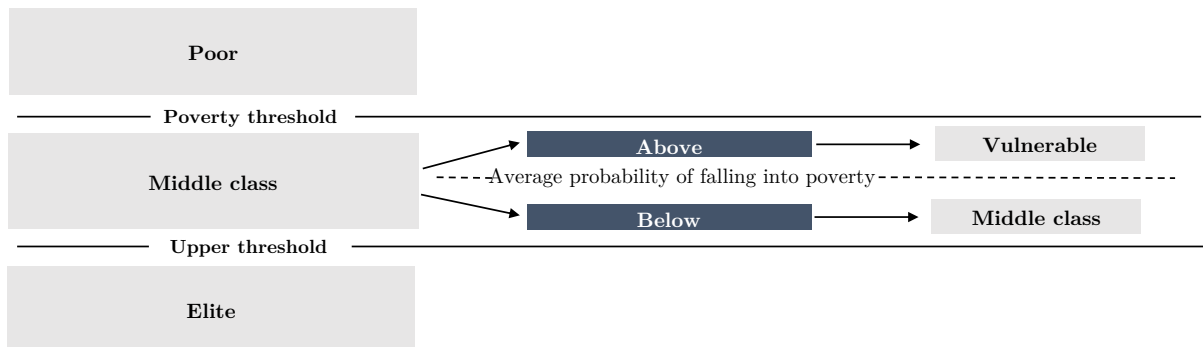
Notes: Conversion between international \$ and South African Rand uses the PPP conversion factor for private consumption (LCU per international \$) provided for by the World Bank. In 2005, international \$1 (PPP) was equivalent to R4.57. All thresholds have been converted to constant prices of March 2017. The household income variable in the NIDS dataset is adjusted for by removing imputed rental income because of high levels of missing values and South African literature infrequently includes rental income in any analysis of household income (Visagie & Posel, 2013; Zizzamia et al., 2016). The working-age population is analysed (ages 15-64).

a. The middle-income boundaries are calculated based on monthly household income per capita (χ) in constant prices of March 2017, and the relative thresholds were calculated using NIDS wave 5 household income distribution.

b. Zizzamia et al (2016) used a vulnerability threshold which defines the middle class in terms of expenditure

In defining the middle class from here onwards, we shall adopt the ‘vulnerability approach’ provided by Zizzamia et al., (2016), in an effort to define the concept of a middle class that is not deemed to be poor by standards of developing countries. They argue that the middle class is an ‘empowered class’, the criteria being that “a basic and necessary condition for empowerment is that individuals or households are sufficiently secure against falling into poverty” (Zizzamia et al., 2016: 12). This builds upon recent research that separates those who are not poor, but not middle class either (known as the ‘floating’ or ‘struggling class’[López-Calva & Ortiz-Juarez, 2014; Birdsall, 2015]) to distinguish a vulnerable class (Figure 2). Those in this class are not yet ‘income secure’ and are, thus, not eligible to be part of the middle class.¹²

Figure 2: Four-tiered class stratification following a vulnerability-based approach



Source: An adaptation from Schotte et al., (2018)

2.4 Profiling South Africa’s Middle Class

The vulnerability approach is able to bridge the gap between economic and sociological ways of conceptualising the middle class. This approach not only defines the middle class based on an income range, but also reflects the source of revenue for households allowing them to have power in society (Southall, 2016).

¹²Can be thought of as the lower middle class.

To identify the middle class, we use per capita total household expenditure.¹³ There is much contention about using household income opposed to household expenditure when analysing distribution changes. However, since South Africa is plagued by high levels of poverty, defining class thresholds in terms of expenditure provides a better approximation of permanent household income (Zizzamia et al., 2016).

By using the approach defined by Zizzamia et al., (2016), we understand poverty not to be a constant state, meaning that households can move in and out of poverty. The lower income threshold of R3 572 (in 2017 constant prices) is used as it distinguishes households who have a 10% risk of remaining or falling into poverty. The upper threshold is defined as the average predicted per capita income and expenditure of those in the bottom one percentile of the predicted probability distribution of falling back into poverty, unlike other studies that have arbitrary upper bounds (Kharas & Gertz, 2010; López-Calva & Ortiz-Juarez, 2014; Zizzamia et al., 2016).¹⁴ This means that the elite are estimated to be those who are least likely to become poor over time. For comparison purposes, the poor, vulnerable class and the elite will be included in the analysis that follows.

2.4.1 The Size and Composition of the Middle Class

Table 2 depicts four social classes in terms of their relative size and growth. The middle class has experienced gradual growth over the eight-year period observed - growing

¹³The household expenditure variable in the NIDS dataset is adjusted for by, firstly, removing imputed rental income because of high levels of missing values; South African literature infrequently includes rental income in any analysis of household income. Secondly, by excluding expenditure that is considered to be ‘lumpy’ once off expenditure such as a car or furniture (Visagie & Posel, 2013; Zizzamia et al., 2016).

¹⁴Although López-Calva and Ortiz-Juarez (2014) disclose that their upper bound is arbitrary, they argue it is rather the careful selection of the lower bound that is more important than an upper bound (Burger et al., 2015). A shift in the lower bound by 10% (up or down) will ultimately change the size of the middle class, since a significant portion of the population is situated closer to the middle of the distribution. Whereas a 10% change in the upper threshold would not affect as many people, since only a few are at the top tail of the distribution.

from 13.7% in 2008 to 14.5% in 2017. Furthermore, the size of the poor class has decreased from 67.4% to 61.4% between 2008 and 2017 respectively. This means that there has been considerable upward mobility, confirmed by the growth of the vulnerable class. The vulnerable class has experienced the highest growth, in absolute terms, from 15.5% to 19.3% over the nine-year period.

Table 2: Size and growth of various social classes

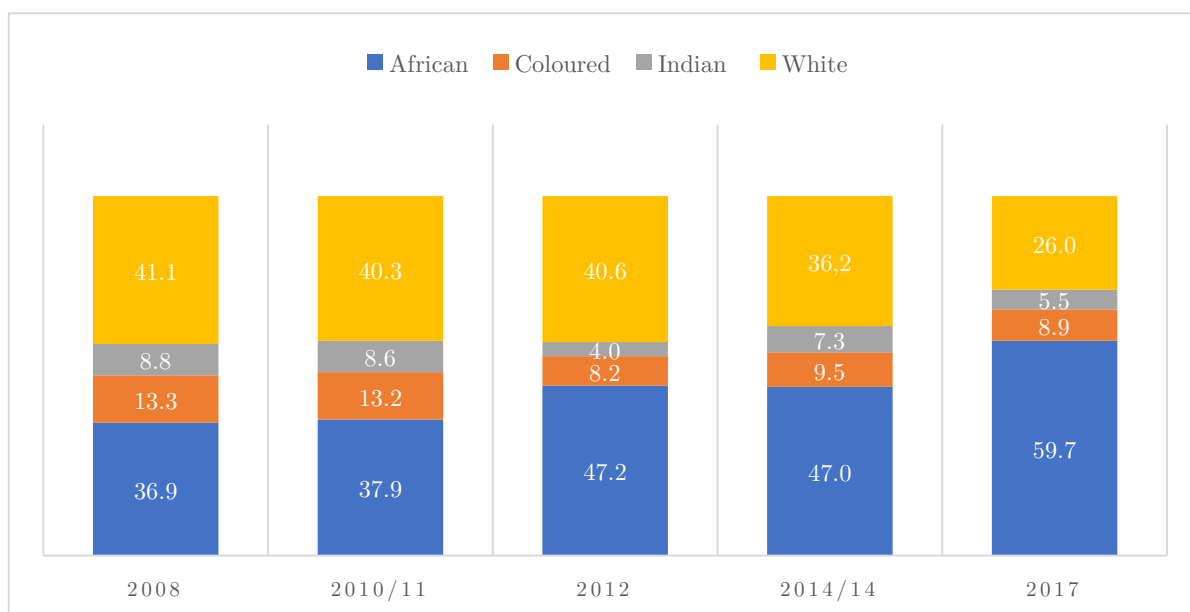
Per capita monthly income range		Size of classes (%)				
		2008	2010/11	2012	2014/15	2017
Poor	< R1 476	67.4	72.0	69.1	65.4	61.4
Vulnerable	R1 476 - R3 572	15.5	13.1	16.9	18.2	19.3
Middle	R3 572 - R11 953	13.7	11.8	11.1	13.3	14.5
Elite	>R11 953	3.4	3.1	3.0	3.0	4.8

Source: Authors' own calculation based on NIDS waves 1-5 using post-stratified weights

Notes: Per capita monthly income ranges are calculated based on monthly household expenditure per capita in constant prices of March 2017.

Figure 3 shows that there has been a revision in the racial composition of the middle class. The African share of the middle class has increased from 36.9% to 59.7% between 2008 and 2017, representing upward mobility. In absolute terms, the African membership of the middle class has more than doubled from 2.3 million to 4.8 million between 2008 and 2017, respectively. Concurrently, the white population share of the middle class has contracted over the same period. In terms of demographic representation, the white population in 2008 are over-represented in comparison to Africans who are under-represented, but over the period of analysis, we see a shift. Figure A.1 in the appendix depicts the share of Africans categorised as poor showing minimal change, with Africans and coloureds being the dominant races in this category. It is also worth noting that there has been a considerable shift in the number of Africans moving into the elite class, having more than doubled over the nine-year period (see Figure A.2 in the appendix).

Figure 3: Racial composition of the middle class from 2008 to 2017



Source: Author's own calculation based on NIDS wave 1-5 using post stratified weights.

As anticipated, Table 3 below shows that there are significant differences in the mean per capita income of the poor, vulnerable, middle and elite households. The mean per capita expenditure for the elite is considerably larger than the middle class, poor and vulnerable households. The mean educational achievement of the highest skilled individual in the household varies according to class; it is exactly 12 years for the middle class. The highest level of education is attributed to the elite class. When it comes to labour market participation, the middle and elite classes enjoy the highest level of employment in comparison to the other classes.

The estimates (from Table 2 Table 3 and Figure 2) show the level of inequality that plagues South Africa by the contrasts between the elite and the poor. The elite is mainly white, very wealthy, mostly employed and enjoys high levels of education, in sharp contrast to the poor, who are almost entirely African, less educated and have a mean household income per capita below the SALDRU poverty line.

Table 3: Characteristics of the four classes in 2017 using the vulnerability approach

	Poor	Vulnerable	Middle	Elite
Mean per capita household income	R1 001	R2 633	R7 643	R22 967
Mean per capita expenditure	R676	R2 264	R6 479	R22 708
Mean age	45.8	39.6	41.3	48.0
Mean years of education of education	7.9	10.4	12.2	13.7
Employed (%)	47.2	74.7	81.6	85.6
Unemployed- discouraged (%)	1.8	0.3	0.4	0.2
Unemployed- strict (%)	13.5	7.5	4.6	2.9
Economically inactive (%)	37.6	17.6	13.4	11.3

Source: Author's own calculations using NIDS wave 5 applying post stratified weights.

Notes: Unemployed statistics are only calculated for the working-age population (ages between 15 and 64). The mean age and education level relate to the household head.

2.5 Conclusion

Determining precisely who comprises the middle class in South Africa is a complex task, as a large portion of the population who are considered to be part of the middle class, are on the fringe of falling back into poverty.

This chapter has shown that there are marked differences in who is deemed to be part of the middle class, based on the various definitions and approaches discussed above. There is minimal convergence between those in the middle of the national distribution, and of those that are defined by an absolute threshold of affluence. It is also shown that individuals living in households within the median of the national income distribution do not have the socioeconomic status typically attributed to the affluent middle class, given South Africa's prevalence of high income inequality

Developed nations define the middle class according to who is in the middle of the income distribution (Birdsall, 2010). The problem is that this definition is not suitable for developing nations as the average citizen may be poor or not too far from the poverty line, so purely analysing who is positioned within the median of the distribution would result in not capturing the real middle class.

Absolute income thresholds are widely used in literature, but many of the studies estimate the middle class to be just above the poverty line, thus implying that the middle class starts where poverty ends. For this reason, we use the vulnerability approach to define the middle class. Furthermore, this points to the fact that no single definition can be applied to developing countries as it is a broad concept. This chapter has shown that a middle class defined using a threshold of between \$2 - \$10 per day per capita is not applicable to a developing country like South Africa. Using this definition includes a significant portion of the population that is poor.

The use of the vulnerability approach shows that the middle class experienced marginal growth over the period of analysis, but remains small with a population share of 14.5% in 2017. However, we find that the share of Africans in the middle class increased considerably between 2008 and 2017 indicating upward mobility. Conversely, the white population share of the middle class declines and can in part, be attributed to attrition of white respondents in the NIDS data between wave 1 and 5.

with the number of Africans in the middle class exceeding their white counterparts by 2017; this is consistent with existing literature.

Now that the middle class has been defined for South Africa, we assess the level of indebtedness for African middle class households in the following chapter.

Chapter 3: Debt and the Middle Class

3.1 Introduction

There have been numerous studies of the growth and emergence of the African middle class; however, few of these studies highlight their levels of debt. Being over-indebted is a socio-economic policy concern as it can harm the welfare of individuals and households in society. New opportunities for credit were made available after 1994 to those to whom it was denied previously. This resulted in significantly increased levels of consumer borrowing that were considered to be unsustainable. This is due to the deregulation and expanded access to the credit markets in the early 1990s (James, 2016).

Peebles (2010) argued that economists have defined credit/debt as “the ability to link the present to the past and the future” (Peebles, 2010: 226). That is, credit/debt alludes to past actions that have established a contractual obligation between the parties involved, thereby conjoining their respective futures and pasts by establishing a material link between said parties. The debtor borrows speculative resources from their future and transforms them into resources to be used in the present. Where, on the other hand, the creditor is denying himself or herself the use of these resources in the present in exchange for speculative gains in the future (Peebles, 2010). In addition, the availability of credit allows households to spend more by allowing them to buy now rather than postponing for future expenditure (Prinsloo, 2002).

South Africans were considered to have been the world’s largest borrowers in 2014 according to some measures. According to a report issued by the World Bank (Demirguc-Kunt et al., 2015), 86% of adults had borrowed money in the previous year, whereas the global average was 40%. Borrowing is mostly from friends and family, private micro-lenders and, to a lesser extent, from financial institutions. This can be

attributed to the extension of credit post-apartheid to those who were denied it previously (McEwan et al., 2015). The emergence of the new African middle class would have been difficult if there was a lack of access to credit, as credit could be used for investments such as purchasing land or a house, building human capital and establishing businesses. Financial inclusion is important for this segment of the population as it gives access to investment in durable assets, health and education and provides the opportunity for them to engage more effectively with the economy, both from a consumer and business point of view.

Credit use is outpacing employment growth in the country (The Economist, 2018b). Employed Black South Africans are, more often than not, saddled with the responsibility of having to support their extended family members and contribute towards their family needs— a phenomenon commonly known as ‘black tax’ (The Economist, 2018b).¹⁵ Deducting black tax from an individual’s income (alongside other expenditures such as groceries) can leave struggling households further financially burdened.

It is therefore important to understand the factors that lead African middle class households to become highly indebted, while also accounting for debt that is believed to be (un)justified, so that corrective, proactive measures can be made by policy makers.

The remainder of this chapter is organised as follows: a detailing of the debt literature in South Africa; a reference to the data that will be utilised as well as the variables of

¹⁵Black tax can manifest in several forms. For example, “having to contribute to household living expenses, paying for a family members school fees and often, in many cases, being the person the family turns to when in financial distress” (Matubatuba, 2016:1).

interest; followed by a descriptive analysis of household indebtedness and concluding remarks.

3.2 Literature Review

As is the case in other economies, households in South Africa enter into debt in an attempt to either sustain or advance their lifestyles (James, 2014). It is estimated that approximately 65% of adult South Africans owe money to financial institutions or other corporate lenders (The Economist, 2018b). Economic theory has identified consumption as playing a crucial role in influencing whether or not a household will go into debt. Excessive expenditure can potentially lead to less income being available for savings. This indirectly causes those in the household to borrow money in order to soften their consumption burden over time. This tends to occur more when there is a negative shock to their income level (Khan et al., 2016).

Household debt mainly comprises two categories: consumer and non-consumer (mortgage debt) credit, with the former comprising “open accounts, personal loans at banks, other personal loans, credit card facilities instalment sale transactions and lease agreements” (Prinsloo, 2002: 64). Generally, non-consumer debt tends to be secured debt. This means the debt is backed by collateral, either by the assets that were purchased (for example, a car that is being financed by a financial institution acts as a form of collateral and can be repossessed if there is a failure to meet the terms of repayment), or any other asset. Unsecured debt is defined as debt that is not backed by any underlying asset. Consumer credit can be secured, but tends not to be for credit such as credit cards, revolving credit, personal and student loans (Prinsloo, 2002).

The rest of the section will explore the literature on the use of credit. This section will begin by exploring the economic theory of debt, followed by how debt affects South Africans, particularly the middle class.

3.2.1 Theory of Debt

Economic theory states when a household's expenditure exceeds its current income, the shortfall is financed through debt to smooth consumption and allow for the acquisition of assets such as cars, houses and so forth (Aron & Muellbauer, 2000; Dornbusch et al., 2011; Meniago et al., 2013). Debt can largely be attributed to people's desire to consume now rather than later (Prinsloo, 2002). This is known as the 'Life Cycle Hypothesis'. The main model assumption is that households can maximise utility over their life time, subject to a budget constraint. In other words, households smooth out their consumption between the short and long term to maximise their utility. In the short term, households can take on debt to smooth out consumption as a result of negative income shocks such as unemployment, for example. In the long run, however, debt becomes a method to smooth out consumption over the course of an upward sloping lifetime income schedule. Similarly, if there is an adverse economic shock, such as changes to interest rates or unexpected decreases in income, it could threaten households' ability to service their debt. This would then lock the household in a perpetual cycle of debt (Barba & Pivetti, 2009; Dornbusch et al., 2011; Meniago et al., 2013; Khan et al., 2016).

If an assumption is made that household income is upward sloping and does not face any credit constraints, one would expect that, during the early stages of their working lives, households will initially have a negative savings rate. During its working life, the household's income will rise, thus beginning to save money while debt decreases. At retirement age, the household will no longer be working, households dissave for the

remaining years, as in the initial working years, and start living off the accumulated assets and income to maintain their consumption from previous periods (Dornbusch et al., 2011).

Furthermore, the life cycle hypothesis accounts for demography, especially the age distribution of the population and how it affects the aggregate level of debt in the economy. Where the population is younger, there will be higher levels of debt in the economy compared to when the greater proportion of the population is older. This is explained by the households within a younger population group having to borrow from their future to smooth out their consumption over time (Dornbusch et al., 2011).

Khan et al., (2016) state that household consumption is a critical component for economic growth; however, they also argued that consumption that is financed by borrowing, will hinder long term growth if the household cannot afford to meet their financial commitments. This is due to the fact that, as the ratio between debt and household income rises, the households will, at some point, reduce their spending to maintain their financial position, which could stifle economic growth over the long term.

The theory assumes that all consumers are rational and know what resources they require to accumulate over the life cycle. However, in reality, this does not always hold true. The reason for this is that South African households considered to be previously disadvantaged have been subjected to credit constraints in the past, and, although access to credit has become easier, many households are still unable to borrow to smooth their consumption as desired. Thus, the economic theory on debt fails to account for the cost of, and access to, credit since the poorer parts of society often have higher costs due to their risk profile. The higher risk profiles of these households

cause lenders to charge higher interest rates while households that are seen to be wealthier have greater access to affordable credit.¹⁶

Okurut (2006) investigated the determinants that influenced access to credit in South Africa between 1995 and 2000. He found that the poor and the black population have limited access to the formal and semi-formal financial sectors, leading poorer households to access credit from informal credit providers.¹⁷ This illustrates the need to improve greater access to organised credit markets for poor households, which specifically affects Africans.

3.2.2 The Indebted Nation

The dawn of democracy brought with it a new promise of prosperity and upward mobility especially for those who had been previously disadvantaged. This saw increased rates of borrowing and lending as African consumers took advantage of credit opportunities that had previously not been available to them, while (in particular) sectors of the white community started to enter into micro-lending businesses to cater to and profit from the newly-realised market (James, 2014). The growth of the micro-credit sector in the 90s contributed significantly to greater access to credit extension, particularly for low income households (Prinsloo, 2002; Daniels, 2004). The consumers who constituted the previously underserved markets characterised by low incomes became the focal point of the major financial institutions. New products were developed from diverse lenders targeting this new market. The consequence was an increase in debt relating to numerous forms of credit (Hurwitz & Luiz, 2007).

¹⁶Furthermore, the life cycle hypothesis does little to account for negative income shocks relating to issues that affect a subset of the population, for example black tax and illness such as HIV/AIDS.

¹⁷Formal credit is defined as including mortgage finance from commercial banks, semi-formal credit includes consumption credit to finance household assets such as furniture and retail accounts and, lastly, informal credit includes debts from relatives and friends.

The expansion of credit facilities affects household behaviour indirectly over time.¹⁸ This is why there has been an increase in consumers seeking credit facilities as it is a response to easy access to the credit market. Households are enticed into borrowing money in excess, thus affecting consumption patterns (Khan et al., 2016). Furthermore, according to the Consumer Credit Market report published by NCR, (2008, 2018), credit facilities granted in South Africa increased from R72.3 billion to R133.6 billion between the third quarters of 2008 and 2018. Credit and garage cards made up the biggest proportion of the credit facilities granted across both years. This indicates an increase of mainly short-term credit access to credit by consumers.¹⁹

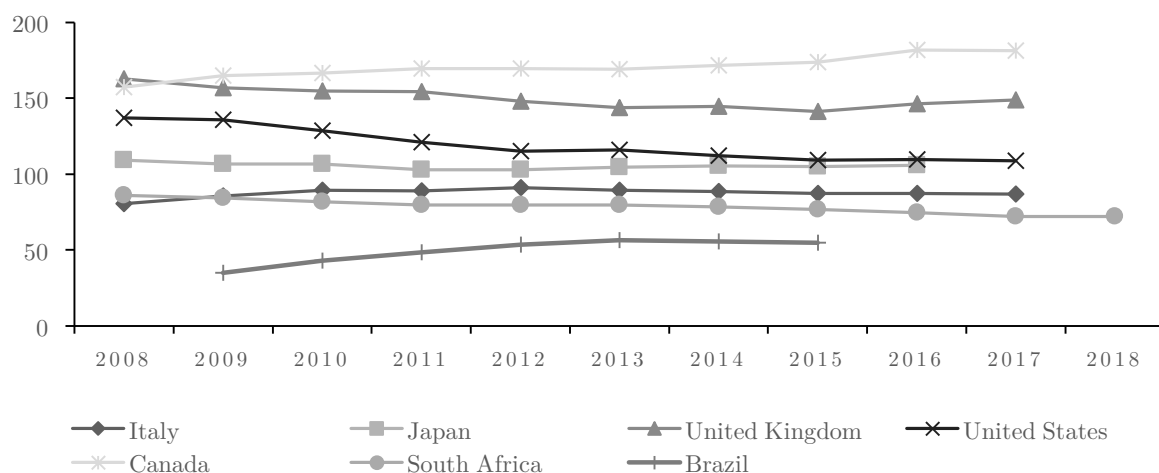
Figure 4 shows that the ratio of household debt to disposable income decreased to 71.9% in 2018 compared to 85.7% in 2005. Although there has been a decline, the ratio remains high. Relative to developed nations, South Africa has lower debt levels but household debt ratios are high compared to comparable developing countries such as Brazil.²⁰ The household debt ratio for the United States has declined significantly, but still remains at a high level of 108.7%. High debt ratios can signal financial vulnerability and one should account for the ownership of assets, such as a house, in such assessments. In OECD countries, mortgage loans comprise over 80% of total household debt (OECD, 2016).

¹⁸Credit facilities consist of: credit and garage cards, bank overdrafts, services, store cards and other facilities.

¹⁹ Short term credit is money that is borrowed with an intention to repay within a short time frame and includes: credit cards, personal loans, store cards etc. Long term loans have a significantly longer repayment period and include mortgages and student loans.

²⁰ It should be noted that data for some of the years was not available for Brazil.

Figure 4: Household debt to disposable income ratio in selected countries



Source: OECD, 2019; SARB, 2019

Developed economies are seen to be linked with the US economic financial system and, therefore, their high debt to income ratios can be explained by the 2008 US economic recession that affected a significant number of the economies (Meniago et al., 2013). OECD countries also have lower interest rates when compared to other countries, which makes servicing loans much cheaper.

The cause of concern stems from households that are highly indebted being vulnerable to becoming over-indebted. De Wet et al., (2015) highlighted the shift that occurs when a highly indebted consumer faces unexpected negative external market shocks (shocks that stem from the macroeconomic environment).

Using the South African Reserve Bank (SARB) quarterly time series data from 1985 to 2012, Meniago et al., (2013) analysed factors that contribute to increased household debt in South Africa. The authors found that there is a strong and positive relationship between changes in house prices, inflation, GDP, household consumption expenditure and household savings on household debt. If there is an increase in the covariates, the households respond by increasing their debt.

Findings in a study conducted by Daniels (2001) show that debt levels in South Africa increased between 1995-1999. The growth of the indebted population grew across various income categories, which implied the deepening of the financial sector, especially for those located in the lower-income categories. The author concluded that the ability to repay debt is low and continues to decrease across many of the income categories at the lower end of the income distribution, owing to increased housing debt and lowered cash flow levels. These findings are similar to a recent study undertaken by Cheruiyot Koech and Hamann (2018), which was based on households in Gauteng. This study also found that low-income households are less likely than high-income households to have debt, but that low-income households are more likely to default on their debt repayments.²¹

Consumer Credit Regulation

The government has recognised that debt and credit issues have plagued the population, causing them to create legislation that protects ‘consumer rights’. The reason for such legislation is described by the Department of Trade and Industry (2003: 1) to include:

- Fragmented and outdated legislation
- Ineffective consumer protection, particularly in relation to consumers in low-income groups
- High cost of credit and, in some areas, access to credit
- Rising levels of over-indebtedness
- Reckless behaviour by credit providers and exploitation of consumers by micro-lenders, intermediaries, debt collectors and debt administrators

Many consumers were borrowing beyond their means and lenders were becoming increasingly cognisant of the average South African’s limited knowledge of their credit rights, particularly South Africans at the lower end of the income distribution. The

²¹The default on debt payments is based on three months before the interview was conducted (Cheruiyot Koech & Hamann, 2018).

National Credit Act No. 34 of 2005 (NCA) was promulgated in order to address these difficulties and, subsequently, the National Credit Regulator (NCR) was established as the regulator of the NCA (South Africa, 2006).²² The NCR regulates the credit industry. Credit regulation in itself cannot prevent the external shocks that lead to households being overly indebted, but can aid households that are considered to be highly indebted, so that they can deal with negative external shocks from the market.

In a recent study, De Wet et al., (2015) investigated the NCA's ability to reduce levels of over-indebtedness and they found that the NCA had failed to do this in South Africa. They attribute this to the current affordability assessment of the NCA not being able to assess the risk profile of consumers adequately. The NCA favours indebted households of salaried workers, whose homes are located in urban areas. This is evidenced by the fact that one of the prerequisites in the formal credit market is a 'payslip'. This precludes those who do not have formal employment from partaking in the formal credit market, especially those residing in rural areas.

3.2.3 The Middle Class and Conspicuous Consumption

The black middle class in South Africa has grown in size and economic significance over the last two decades (as mentioned in Chapter 2). A growing middle class population is supposed to be a key driver of savings. This is a necessity for maintaining and improving quality of life, in addition to relieving the burden on the State to provide (Cronje & Roux, 2010). However, in South Africa, there is far less emphasis on savings and more on the black middle class being a driver of consumer spending.

²²The NCR is tasked by the Act to promote the development of an accessible credit market "particularly to address the needs of historically disadvantaged persons, low income persons and remote isolated or low density communities" (South Africa, 2006:s12).

Many within the new middle class in South Africa have been engulfed by debt since they have been able to have some form of collateral (James, 2012). The Sanlam benchmark survey indicates that more than 70% of South Africa's middle class is unable to meet their debt commitments consistently, with short-term debt making up the most significant proportion of the debt – this includes car payments, personal loans, and credit cards (Lamprecht, 2017). While the demanding economic conditions have contributed towards the financial difficulties that individuals face, the culture of consumerism has also played a significant role, particularly within the black middle class, as consumption is seen as a means of demonstrating one's wealth status (Southall, 2004).

Those that are most vulnerable to overuse of credit are households that are making their way rapidly up the social class ladder, especially the post-democracy civil servants (James, 2012). The social class ladder sees those in the lower class aspiring to access the same goods and services as others higher up on the social ladder. However, due to the fragile labour market, aspirations of upward mobility are hindered and the promise of economic equality becomes remote. Thus, goods and services are purchased through borrowing money, which widens the chasm of economic inequality between those at the top of the income distribution and everyone else below. Those that aspire to a lifestyle at the upper end of the income distribution will consume more than they earn, either because they are saving less or going deeper into debt. It is, therefore, not surprising that the top groups increasing wealth and the bottom groups' reliance on debt will spur income inequality.

In 2007 a high ranking government official was quoted as saying, "I didn't join the revolution to be poor" (Posel, 2010: 158). This highly provocative statement illustrates that, for this government official, the struggle against apartheid transcended the need

to merely escape poverty, and was also a means to accumulate wealth and ‘get rich’. The culture of consumerism within the black population can be defined by the economic theory of conspicuous consumption, which is consumption that is intentionally made to be observable (Burger et al., 2015). The central driver behind conspicuous consumption is that the utility an individual derives is not only reliant on their own consumption, but also on the level of consumption displayed by those around them. In other words, this can be viewed as signalling wealth. Moreover, when income declines for some households relative to others in society, they will try to maintain a level of consumption that can be observed by others (Frank, 1985). Since their current income is either constant or decreasing, they will be left with little choice but to take on debt.

Given the theory of conspicuous consumption, the black middle class may then be seen as trying to distinguish themselves from the working class by signalling their wealth. Kaus (2013) argued that the need to signal wealth would be stronger among coloured and black South Africans, who experience a higher intra-group inequality and lower mean income. The author also found that white individuals are less inclined to show off items related to their outward appearance (that is, clothing, footwear and jewellery, for example), but rather to spend more on social activities such as club memberships, restaurants and hotels. This is the opposite for black individuals, who signal their status based on their outward appearance.²³

The expenditure patterns within less affluent groups are driven by historical asset deficits (Burger et al., 2015). Assets, along with income, are an important measure of households’ economic resources. The term asset is defined very broadly to include both financial and non-financial assets. Financial assets consist of unit trusts, equity,

²³Kaus (2013) goes on to note that being white is a powerful signal in itself, indicating their socio-economic position in society.

retirement annuities and bank deposits; non-financials include mainly property or land, vehicles and other goods (Deere & Doss, 2006; OECD, 2016; Lings, 2018).

Burger et al., (2015) found that conspicuous consumption is inversely related to asset ownership. Therefore, as asset ownership increases, there is a decline in conspicuous consumption, which is indicative of a decreasing need to signal economic status. Thus, black middle class households are lagging behind their more economically established white middle class counterparts when it comes to household asset levels. That is, in white households, it is quite likely that there would be one would likely see an intergenerational transfer of household assets, thus enabling the next generation to assign a larger share of their disposable income to other items. On the other hand, black households with a similar income allocate more of their resources to eliminating the asset deficit that is a result of previous generations' lack of access to assets (Burger et al., 2015). Long term acquisition of assets is crucial at all levels of income and wealth distribution (Deere & Doss, 2006).

3.3 Data and Methodology

In order to understand the factors that influence middle class households becoming overly indebted, as described in Chapter 2, this section uses waves one (2008) and five (2017) of the NIDS data (SALDRU, 2018a,e) to provide an in-depth descriptive overview of household indebtedness. Furthermore, this section will be using the middle class definition set out in Chapter 2. By using the NIDS data, this study will be able to utilise the information on household indebtedness.

The debt data of interest is drawn from the adult and household questionnaires. Within the adult questionnaire, a section on personal ownership and debt asks respondents to identify various debts they may have currently. Thereafter, respondents are asked to

indicate how much in the last 30 days was made in repayments, followed by the outstanding balance at the time the interview was conducted. Since most debt-related questions in NIDS were asked at an individual level, in order to conduct a household analysis, individual responses to debt are aggregated to represent debt at a household level.²⁴ This presents a challenge, since there is no debt data on the proxy questionnaire, which means that the household-level debt data may be under-reported due to the missing proxy adult information.

Another caveat of using the data is that, for waves two, four and five, the question relating to the last payment made towards the category of debt is eliminated. Asking only for the remaining outstanding debt limits the scope of the analysis as an evaluation of debt servicing cannot be determined. Due to this constraint, in order to conduct an in-depth analysis across time, the rest of the section will focus primarily on outstanding debt as one of the indicators of debt. The empirical findings of this study may only result in modest findings of household indebtedness as a result of households not adequately revealing their actual debt burden. However, notwithstanding these constraints, this assessment will yield an understanding of consumer behaviour through outstanding household debt, giving us an insight into the composition and magnitude of household over-indebtedness.

3.3.1 Debt Measurement

This section will briefly provide the main variables that will be used in the descriptive analysis of indebted middle class households. As mentioned before, NIDS has debt data predominantly collected at the individual level and this has meant aggregating all relevant debt variables to make them applicable at a household level for this analysis.

²⁴The data, specifically for wave two, four and five, contains some pre-existing debt related variables at a household level.

The defined subsample being analysed is restricted to households who responded positively to being indebted, which intentionally truncates the sample.

The main descriptive household analysis, is, in part, similar to a comparative static study by Daniels (2001), where the author compared changes in household indebtedness in South Africa between the years 1995 and 1999 using datasets from the October Household Survey and Wefa Southern Africa. In the analysis, Daniels (2001) used annual total outstanding debt to evaluate the difference in urban household indebtedness. He went further to compile a detailed consumption and debtors schedule showing the proportion of expenditure dedicated to consumer goods and the proportion of total outstanding debt disaggregated into various debt categories that comprise total outstanding debt, respectively.

The debt indicators used for this analysis include:

- Total outstanding debt as a share of total household income (D/YRD)
- Total outstanding debt (minus bond) as a share of total household income ($D\{\text{less bond}\}/YRD$)
- Total outstanding debt as a share of total household expenditure (D/C)
- Total outstanding debt (minus bond) as a share of total household expenditure ($D\{\text{less bond}\}/C$)

The variables used in the measures are annualised to keep in line with Daniel's (2001) paper and are estimated for various household characteristics including: social class (using definitions noted in Chapter 2), race, age, gender, education, marital status, province, adverse shock, occupation and financial assets. These co-variates are in line with the theoretical framework of the lifecycle hypothesis, which indicates that, in order to assess debt, one needs to account for demographics and asset-related variables.

The seven co-variates are standard demographic variables. Adverse shock variable relates to a section in the household questionnaire asking whether they have experienced one of the categorised adverse events in the last 24 months. These include the death of a family member that you are dependent on for financial assistance, theft, fire or destruction of household property, illnesses of family members, and loss of major income source. The occupation variable is disaggregated into highly, medium and low skilled categories. Lastly, the financial asset variable is derived from a question which asks respondents if they have a bank account, pension or retirement annuity, unit trusts, stocks and shares. The demographic variables are that of the household head and all monetary figures are adjusted to March 2017 monetary terms.

The defined debt indicators will allow for an analysis that gives an overview of each household's financial constraints and the co-variates will further disaggregate the analysis, keeping in line with the life cycle hypothesis.

3.4 Descriptive Analysis

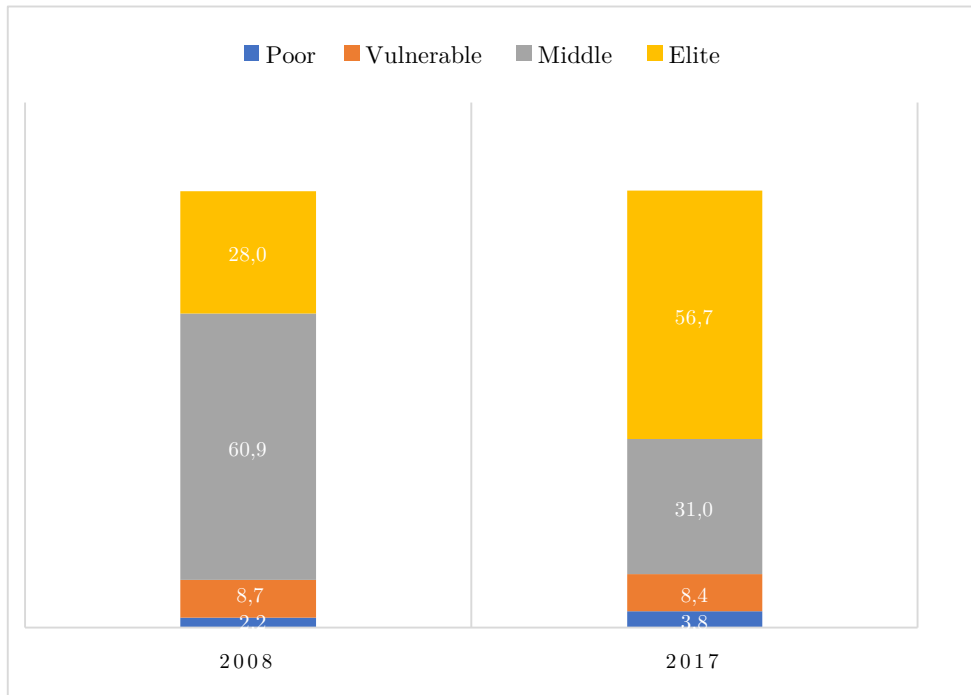
In this section, changes associated with household debt between 2008 and 2017 are tracked, initially by giving a brief overview of total outstanding household debt and the proportion held by various classes, distinguishing between debt with and without a mortgage. This is followed by a household characteristics comparison between debtors and non-debtors distinguished by class, setting the scene for the analyses on household indebtedness that follows. Lastly, an assessment of a consumption and debt schedule is constructed which is the proportion of total expenditure that is dedicated to consumer goods, and the proportion of total outstanding debt disaggregated into various debt categories that comprise total outstanding debt.

3.4.1 Total Outstanding Debt

Total outstanding debt is an important indicator as it shows ‘ability to borrow’ which differs across households with different characteristics. Figure 5 presents a graphic visual representation of the proportion of households with outstanding debt by class.

The bar graph shows that, in 2008, of the total outstanding debt the middle class held the largest proportion (60.9%), followed by the elite (28%). In 2017, the middle class experienced approximately a 30 percentage point decrease and the elite a 29 percentage point increase in the proportion of total outstanding debt. The decline in debt for the middle class is explained by the exiting of households from the middle class category between 2008 and 2014/15 (see Chapter 2), with only a marginal increase in 2017. While the increase experienced by the elite is associated with a top-up of the same in the fifth wave (2017) of the NIDS dataset, specifically targeting wealthy individuals and households. This was done to compensate for the increasing levels of attrition over the years. The poor and vulnerable class held the smallest proportion of debt between 2008 and 2017 relative to the middle class and the elite. The unequal proportions of debt, of which nearly 90% is held by the middle and elite class between the years, is explained by differing abilities to borrow among the population. This indicates that the poor and vulnerable groups do not have the same access to formal lending institutions as compared to the middle and elite group. This reflects significant disparities in income and asset distribution across the various social classes.

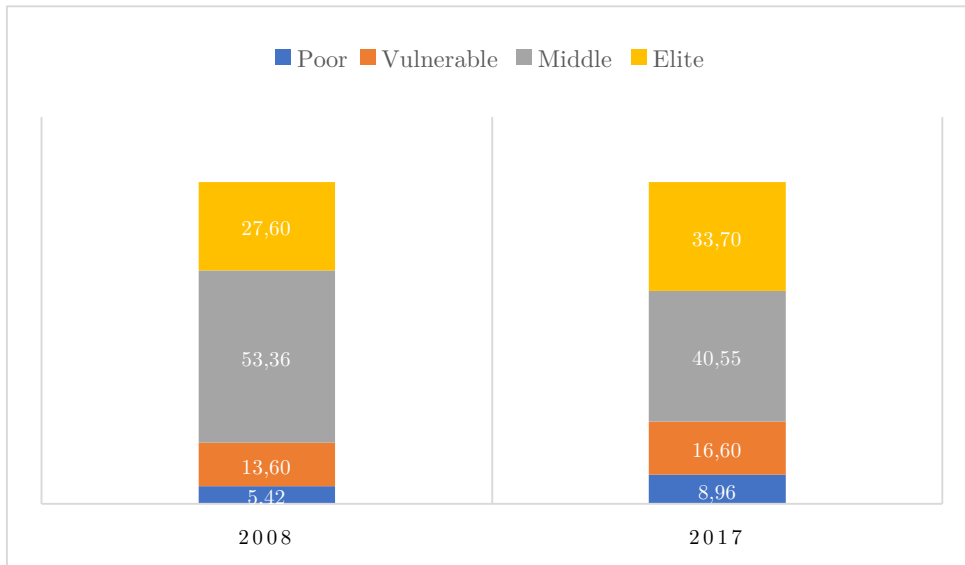
Figure 5: Proportion of total outstanding household debt by class between 2008 and 2017



Source: Author's own calculation based on NIDS wave 1 and 5 using post stratified weights.

Figure 6 shows the proportion of total outstanding debt minus the bond (mortgage). The poor had a 65% increase in debt in 2017 compared to 2008, which is the largest percentage increase in comparison to the other class categories. The only class that did not see an increase is the middle class, whose total debt levels declined by 24% for the same reasons, as explained in Figure 1 above. It is evident that the largest portion of debt held by the middle class is attributed to mortgage loans. This indicates that they use debt to accumulate assets, which is in line with the life cycle hypothesis.

Figure 6: Proportion of total outstanding household debt (minus bond) by class



Source: Author's own calculation based on NIDS wave 1 & 5 using post stratified weights.

Notes: The total outstanding debt variable is comprised of aggregated debt in a household. Figures represent the percentage proportion of the sum of the total outstanding debt.

3.4.2 Non-debtors versus Debtors

Table 4 shows mean household characteristics, providing an overview of households that are indebted and those that are not by class, for waves one (2008) and five (2017). Annual household income and expenditure is, on average, higher for debtors than non-debtors. Moreover, the annual household expenditure for debtors is statistically significantly different from corresponding non-debtors across the two waves, except for the elite in wave 5 (2017).²⁵ This can be expected since credit providers consider regular disposable income a requirement for credit access.

There is a large contrast in annual household income between the poor and vulnerable and the middle and elite groups. Africans, across the various classes, carry the largest

²⁵The household income and expenditure variable in the NIDS dataset is adjusted by removing imputed rental income and household expenditure from owner occupied housing following from South African literature (see Visagie & Posel, 2013 & Zizzamia et al., 2016).

amount of debt, except in the elite class where whites have more debt. There is a significant mean growth of debtors in the middle class and the elite in 2017, particularly among Africans. It is, therefore, quite clear that there is a positive relationship between income and debt for indebted households.

In both wave one and five, 2008 and 2017 respectively, the mean age is higher for non-debtors than debtors. Furthermore, the poor and vulnerable are the only households to have a mean age that is significantly statistically different for debtors and non-debtors.

We observe a similar pattern in education as in annual household income and expenditure. The debtors are statistically different from non-debtors, with the mean education years increasing across each class, although it is not statistically significant for the elite. This finding is in accordance with the expectation that, the more highly educated the household, the better the prospects of employability, thus increasing the earning power of the household.

Table 4: Means of selected household characteristics between non-debtors and debtors by class

Co-Variates	Wave 1 (2008)							
	Poor		vulnerable		Middle		Elite	
	Non-Debtors	Debtors	Non-Debtors	Debtors	Non-Debtors	Debtors	Non-Debtors	Debtors
Annual household Income	R29 328	R50 094*	R47 461	R84 033*	R148 965	R282 613	R310 269	R398 728
Annual household expenditure	R16 656	R30 322*	R40 854	R56 782*	R111 124	R188 479*	R240 669	R457 290*
% African	95.3	98.2	80.5	92.1	44.4	54.0	21.2	26.4
% Coloured	4.5	1.8	12.0	5.0	7.9	11.6*	3.3	0.0
% Indian	0.2	0.0	2.0	2.9	9.6	5.7*	4.3	0.3
% White	0.0	0.0	5.5	0.0	38.1	28.8	71.2	73.4
Age (years)	43.8	40.5*	43.4	39.8*	48.8	46.3	49.3	47.9
Education (years)	6.6	8.3*	8.7	10.8*	11.1	12.1	12.7	14.1
Wave 5 (2017)								
Annual household Income	R33 870	R58 715*	R46 814	R72 795*	R125 133	R190 619	R462 662	R469 651
Annual household expenditure	R18 077	R30 080*	R 2 416	R42 284*	R85 764	R126 052*	R 324 233	R361 405
% African	92.7	94.9	92.0	89.9	57.1	77.9	10.3	47.4*
% Coloured	6.3	5.1	4.0	8.3*	6.8	6.5*	4.9	3.7
% Indian	1.0	0.0	3.4	1.8	6.6	1.22*	15.8	0.4*
% White	0.0	0.0	0.6	0.0	29.6	14.4*	69.0	48.5*
Age (years)	49.1	46.1*	43.1	42.8	49.2	44.2*	56.8	46.6*
Education (years)	7.1	8.1*	9.3	10.0*	11.6	12.0	13.2	13.7

Source: Authors' own calculation based on NIDS wave 1 & 5 using post stratified weights

Notes: * Significantly different from corresponding non-debtors at the 95% confidence level

3.4.3 Indicators of Indebtedness

In this section, Table 5 and Table 6 show the main indebtedness indicators which include total outstanding debt as a share of total household income (D/YRD: column 1), and total outstanding debt as a share of total household expenditure (D/C: column 4). Alongside these indicators, is a re-estimation without a bond (mortgage) debt, denoted as D/YRD less bond, and D/C less bond in columns 2 and 5 respectively, with the differences between the indicators without bond indicated in columns 3 and 6.

i. Results for Wave 1 (2008)

Table 5 depicts the analyses for 2008, revealing an upward debt trend between the middle and elite classes, which is indicative of a changing debt profile. It is evident that bond debt is a substantial contributor to total household debt. However, in the lower classes, this difference is not quite as prominent exhibiting little variation, especially among the poor. Bond debt in the table is included as a liability. However, it is also considered to be positive debt. That means using debt as leverage to purchase an appreciating asset or as an opportunity to increase earning power. The estimates confirm a positive relationship between debt and income, and are robust across the two debt measures. The results, in part, reinforce the notion that low-income households do not have access to formal credit, constrained by their income levels and a lack of assets to use as collateral.

A racial breakdown of indebtedness in the table reveals that debt is disproportionately distributed across racial lines with African households exhibiting the lowest debt levels. The largest share of debt relative to the population is held by the Indian population group. However, the results change once the bond is excluded, showing much lower

levels of indebtedness and the levels of indebtedness are reversed with the Africans now having the most debt followed by the white population group.

Table 5: Total debt indicators by household characteristics for 2008

	1	2	3	4	5	6
	D/YRD %	D/YRD Less bond %	Difference %	D/C %	D/C Less bond %	Difference %
Co-variate						
Class:						
Poor	19.9	16.7	3.2	27.0	21.3	5.7
Vulnerable	54.2	25.2	29.0	64.0	23.3	40.7
Middle class	97.9	31.0	66.9	129.9	28.1	101.9
Elite	116.1	34.5	81.7	97.7	21.9	75.8
Race:						
African	50.9	31.1	19.8	46.7	24.6	22.1
Coloured	81.8	20.0	61.8	121.5	32.5	89.0
Indian	111.1	19.6	91.5	461.5	29.1	432.4
White	66.8	20.7	46.1	80.0	16.4	63.6
Age Categories:						
15-24	6.7	6.7	0.0	8.7	8.7	0.0
25-34	84.0	33.6	50.3	109.0	24.6	84.4
35-44	39.5	21.9	17.6	54.1	26.2	27.9
45-54	77.6	33.6	44.1	95.7	31.8	63.9
55-64	22.2	15.6	6.6	34.2	13.4	20.8
65-74	91.9	61.7	30.2	37.7	18.3	19.5
75 +	9.8	9.8	0.0	14.1	14.1	0.0
Gender:						
Female	40.1	30.7	9.33	32.2	18.8	13.5
Male	66.4	27.0	39.8	87.0	25.8	61.1
Education:						
No schooling	17.8	17.8	0.0	20.0	20.0	0.0
Primary	38.8	26.5	12.4	44.1	23.1	21.0
Secondary-no matric	33.8	25.9	8.0	32.8	22.6	10.1
Matric	73.9	25.4	48.5	96.7	17.8	78.9
Tertiary	79.2	36.7	42.5	95.2	33.0	62.1
Marital status:						
Not married	35.1	22.8	12.3	31.6	21.6	10.0
Married	86.6	33.0	53.6	121.8	26.3	95.5

	1	2	3	4	5	6
	D/YRD	D/YRD Less bond	Difference	D/C	D/C Less bond	Difference
	%	%	%	%	%	%
Co-variate						
Province:						
Western Cape	85.2	32.2	53.0	92.7	22.9	69.8
Eastern Cape	57.7	24.6	33.1	55.8	26.9	28.9
Northern Cape	91.5	67.8	23.7	91.2	64.9	26.3
Free State	56.1	31.2	24.9	70.5	27.9	42.6
KwaZulu-Natal	38.5	25.0	13.5	32.6	22.1	10.5
North West	53.1	53.1	0.0	30.6	30.6	0.0
Gauteng	64.8	23.6	41.2	93.4	19.5	73.9
Mpumalanga	39.0	20.0	19.0	44.5	20.2	24.3
Limpopo	34.6	16.4	18.2	48.7	20.0	28.7
Adverse shock:						
No	58.0	22.5	35.4	86.7	24.8	61.9
Yes	58.2	36.8	21.4	38.8	20.4	18.4
Occupation:						
Highly skilled	79.0	23.2	55.7	141.0	32.4	108.5
Medium skilled	45.5	24.6	20.9	50.3	26.5	23.8
Low skilled	10.5	9.5	1.0	17.2	15.7	1.6
Financial assets:						
No	29.7	25.3	4.4	17.6	15.5	2.1
Yes	61.9	27.1	34.8	79.4	25.5	53.9

Source: Authors' own calculation based on NIDS wave 1 using post stratified weights

Notes: The debt indicators are: D/YRD is the total outstanding debt as a share of total household income. D/ YRD (minus bond) is the total outstanding debt (minus bond) as a share of total household income. D/C measures total outstanding debt as a share of total household expenditure. D/C (minus bond) measures the total outstanding debt (minus bond) as a share of total household expenditure.

In terms of age, categories with a 10-year interval were used, commencing at the age of 15, since this is the start of the working age. The results show that the age category from 15 to 24 are the least indebted, and the most indebted is the 65 to 74 category. The former age category does not incur any bond debt which can be anticipated as many of these household heads are likely to be still in school or in tertiary education. However, once the bond is removed from the total debt, the biggest difference comes from the 24-35 age group. This, in part, is expected as this is the time when households

start leveraging debt to accumulate assets; hence most of their debt comprises a bond. At the last age category of 75+, we expect households to have serviced most of their bond debt.

As far as gender is concerned, the table shows a clear gender difference in indebtedness, where male-headed households are at least twice as indebted as female-headed households for the first and fourth debt indicators. Once the bond is accounted for, the debt difference is not quite as extreme between the male and female headed households. The estimates are indicative of a larger burden of debt falling on the male household head.

As far as education is concerned, the variable is disaggregated into five stages: no schooling, primary (grade 1-7), secondary, no matric (grade 8-11), matric (grade 12) and tertiary (includes certificates, diplomas, degrees and higher degrees). The table shows distinctly that, on average, the more educated the household the more indebted they are, across all the indicators of debt. Most of this debt is attributed to educated household heads possessing a bond. Higher levels of education (having a matric or tertiary qualification) demonstrates to formal credit lenders the earning power of the household. Whereas households that are less educated have less access to credit, given that less schooling is associated with low income, indicating to credit providers that they are riskier clients. This explains the low debt measures we see across all indicators for these groups.

As far as marital status is concerned, the table clearly shows that married household heads are at least twice as indebted as unmarried household heads and this variation is consistent across all debt indicators.

A provincial breakdown of debt reveals that, when using the total debt to regular income debt indicator, the top three most indebted households come from the Western Cape, Northern Cape and Gauteng provinces. When assessing the total debt to consumption debt indicator, it is observed that Gauteng, Western Cape and Northern Cape have the most indebted households in the country. One of the reasons that the Western Cape and Gauteng are among the more highly indebted provinces, is the fact that financial institutions who provide credit are likely to be more widely available in these areas as a result of higher levels of financial inclusion.

Adverse shock is a dummy variable that contains information from households that have experienced some kind of negative event. There is some variation between the debt of households who have experienced an adverse shock and those that have not; however, the total debt to consumption debt indicator tells a different picture. This indicator shows that there are more households with debt who have not experienced an adverse shock, even after accounting for the bond. In fact, we see that, for these households, most of the debt is attributed to the bond.

In terms of occupation the highly skilled category includes managers, professionals, technicians and associate professionals. The medium skilled category is made up of clerks, service and sales workers, craft and related trade workers, plant and machinery operators and assemblers; while the low skilled category consists of elementary occupations which include domestic, agricultural and fishery workers. The table shows is an upward trend in debt across all indicators from low skilled to highly skilled household heads. This is in accordance with the positive relationship between income and debt. The more income that a household generates, the greater the access to debt they have. The difference between the indicators shows that highly skilled household heads attribute a significant proportion of their debt to a mortgage loan.

If one looks at the financial assets variable, households that have financial assets quite clearly have more debt than households that do not. If we observe the difference in total debt and total debt without a bond, households that have financial assets have at least seven times more debt than households who do not. This is consistent with theory as households that have financial assets have better access to the formal credit market, since the households demonstrate the capabilities of servicing the debt if granted and are thus, seen to be less risky by financial institutions.

ii. Results for Wave 5 (2017)

Table 6 shows the total debt indicators by household characteristics for 2017. The results show that debt as a share of regular income (columns 1 and 2) for all classes has increased since 2008 except for the vulnerable, for whom debt has decreased. The biggest growth in debt has come from the elite, with a large difference between debt with a bond and that without a bond across all debt indicators.²⁶ The middle class debt level has declined when based on the consumption debt indicators (columns 4 and 5).

Debt for the African and coloured racial groups has declined marginally, but has increased for the Indian and white populations²⁷. The results begin to stabilise across both debt indicators once the bond is accounted for. Observing debt without the bond, we see that the white population hold the largest level of debt followed by the African population group, similar to that observed in 2008.

²⁶It should be also noted that in the fifth wave of NIDS there was a sample top up of those who reside on the top of the income distribution to counter the increasing levels of attrition.

²⁷The significant rise in debt for the Indian population group is because there are only 13 Indian households in the subsample analysed for this population group.

For most age groups, there is an increase of debt as a share of regular income with the biggest increase in the 55-64 age category and, once the bond is accounted for, the debt decreases significantly. In comparison to 2008 (see Table 5), the most pronounced decline in levels of indebtedness has come from the 65-74 age category. This means there are fewer households within this cohort that are indebted and they are nearing the end of their loan repayment obligations, having managed to service their debts over their lifetimes.

Table 6: Total debt indicators by household characteristics for 2017

	1	2	3	4	5	6
	D/YRD	D/YRD		D/C	D/C	
	%	Less bond	Difference	%	Less bond	Difference
Co-Variate		%	%		%	%
Class:						
Poor	26.7	25.5	1.2	39.8	35.9	3.91
Vulnerable	37.1	24.6	12.5	59.8	46.4	13.4
Middle class	107.4	49.9	57.5	112.7	49.9	62.8
Elite	193.4	41.9	151.5	212.7	45.1	167.6
Race:						
African	50.1	32.6	17.5	62.1	37.1	25.2
Coloured	79.0	23.4	55.5	89.1	39.5	49.5
Indian	133.1	20.3	112.8	321.4	43.6	277.8
White	166.0	35.1	130.8	218.0	32.5	185.5
Age Categories:						
15-24	45.1	28.3	16.9	53.1	30.8	22.4
25-34	87.1	46.8	40.3	84.4	37.8	46.6
35-44	64.0	34.0	30.1	90.3	38.9	51.4
45-54	47.4	26.1	21.3	57.8	35.8	22.0
55-64	120.9	27.2	93.7	175.1	43.2	131.9
65-74	28.1	13.6	14.6	52.0	21.8	30.2
75 +	25.3	20.4	4.9	33.9	24.0	9.9

	1	2	3	4	5	6
	D/YRD	D/YRD	Difference	D/C	D/C	Difference
	%	Less bond %	%	%	Less bond %	%
Co-Variate						
Gender:						
Female	64.6	24.2	40.4	90.4	32.3	58.1
Male	71.5	37.5	33.9	87.0	39.6	47.3
Education:						
No schooling	20.4	18.1	2.3	36.0	31.1	4.8
Primary	21.8	13.5	8.3	29.0	18.8	10.1
Secondary-no matric	44.5	36.0	8.5	44.9	34.1	10.7
Matric	80.8	29.2	51.6	92.4	26.5	66.0
Tertiary	108.4	36.7	71.8	153.5	50.8	102.7
Marital status:						
Not married	67.9	30.7	37.2	86.0	33.3	52.6
Married	70.1	35.1	34.9	92.3	42.9	49.3
Province:						
Western Cape	40.8	16.0	24.9	42.7	21.2	21.5
Eastern Cape	41.3	19.6	21.7	72.1	40.4	31.7
Northern Cape	73.5	23.6	49.9	81.8	28.3	53.6
Free State	22.1	14.3	7.8	35.7	23.4	12.3
KwaZulu-Natal	148.2	15.7	132.5	228.6	24.1	204.5
North West	67.1	30.4	36.8	61.7	38.7	23.1
Gauteng	66.7	37.1	29.5	87.6	41.4	46.2
Mpumalanga	89.3	57.2	32.1	93.0	42.8	50.3
Limpopo	52.6	44.6	8.0	54.1	45.8	8.3
Adverse shock:						
No	69.4	32.5	36.8	91.8	36.5	55.4
Yes	64.7	29.6	35.1	66.7	38.7	28.0
Occupation:						
Highly skilled	140.4	53.3	87.2	209.3	69.1	140.2
Medium skilled	59.4	32.0	27.5	77.2	41.8	35.4
Low skilled	52.2	16.3	35.9	63.0	22.1	40.8
Financial assets:						
No	18.4	10.0	8.4	24.5	15.3	9.2

	1	2	3	4	5	6
	D/YRD			D/C		
	D/YRD	Less	Difference	D/C	Less	Difference
	%	bond	%	%	bond	%
Co-Variate		%			%	
Yes	77.7	36.3	41.4	99.9	40.6	58.4

Source: Authors' own calculation based on NIDS wave 5 using post stratified weights

Notes: The debt indicators are: D/YRD is the total outstanding debt as a share of total household income. D/ YRD (less bond) is the total outstanding debt (minus bond) as a share of total household income. D/C measures total outstanding debt as a share of total household expenditure. D/C (less bond) measures the total outstanding debt (minus bond) as a share of total household expenditure.

In terms of education, there has been a decline in debt of household heads who have lower levels of education (no schooling and primary), and an increase in debt for household heads who are more educated when compared to 2008. We also observe that household heads that have a tertiary education ascribe a substantial portion of their indebtedness to mortgage loans. Overall, the results follow the same trend as observed in 2008, which further substantiates the point that being highly educated has a positive relationship to debt, especially when it comes to holding mortgage debt.

Similarly, the results pertaining to marital status follow the same trend as those of 2008. Although married household heads are more indebted than those that are not married, the results show that unmarried household heads carry a larger portion of mortgage debt. This shows that there has been an increase in unmarried household heads accessing mortgage loans.

In terms of household debt held by provinces, the results vary from that of wave one. In 2017, households in KwaZulu-Natal held the largest portion of debt followed by those in Mpumalanga and then the Northern Cape when using the first debt indicator in column 1. In 2008, the order was Western Cape, Northern Cape and then Gauteng. One of the main contributing factors that has resulted in this change is the significant

increase in migration of households from rural to urban areas according to NIDS data (data not included in this paper). This gives rise to increased access to formal credit providers. Debt without mortgage decreased between 2008 and 2017 for most provinces. This indicates a shift from credit providers moving from providing secured to unsecured credit following the global financial crises and the implementation of the NCA.

Occupation of household heads follows a similar trend and variation to that of 2008. These results are as expected, given that most debt is held by highly skilled household heads and the vast majority of the debt is ascribed to mortgage debt. Interestingly, the mortgage debt from low skilled workers has increased significantly from 2008. This can mean that low skilled workers in 2017 have had better access to formal credit institutions over time. As far as households that have financial assets, we note the same variation as in 2008, with the magnitudes being aligned. This indicates that financial assets are still a strong indicator of credit worthiness for households when being granted access to credit facilities by credit providers.

3.4.4 Consumption Schedule

The consumption schedule measures the proportion of household expenditure stemming from various categories of consumer goods where the categories are made up of differing items. The schedule shows the proportion of household expenditure on basic needs which include, as per the NIDS household questionnaire: household (kitchen equipment, home maintenance, bedding and utility bills), food (an aggregation of all household expenditure that is dedicated to food), personal items (cigarettes, alcohol, television, cell phone accounts, lotto gambling and horse racing, ceremonies such as weddings and funerals, etc), clothing, furniture, health, transport (excludes vehicle insurance), education, insurance, and other (pets, toys gifts, lobola,

etc). The schedule is composed of a subsample of indebted households and the figures are in annual (mean) percentages.

Table 7 presents the consumption schedule for 2017 and the percentage change in consumption between 2008 and 2017. Expenditure items that are the most important across all classes is household items. The elite have the highest share of household costs, as the type of dwelling they reside in subjects them to paying utilities, rates and levies as well as a bond. They thus end up spending greater sums of money on household costs requiring a greater portion of expenditure than households who either rent or reside in informal homes.

The share of expenditure on food and personal items is the second and third largest, respectively for all classes except the elite. The elite spend more money on transport as opposed to food. As income increases, households spend less on food and more of their income on other goods and services. This is in accordance with Engels law that states that the lower the levels of income, the bigger the portion of expenditure dedicated to food.

The share of transport expenditure increases steadily, indicating that higher income groups are more likely to purchase their own vehicles and use them as a primary mode of transport, as opposed to the lower-income groups who are dependent on public transport. Transport expenses of higher-income households therefore include vehicle finance and maintenance costs which take up a considerable portion of household expenditure. The order in which consumption is categorised is indicative of household priorities in accordance with their household income.

Table 7: Consumption schedule for 2017 and percentage changes in consumption from 2008 to 2017 (%)

	Poor	Vulnerable	Middle class	Elite
Household	31.4	31.4	23.7	36.5
Food	14.0	11.4	13.3	6.1
Personal items	18.7	19.6	18.5	17.6
Clothing	9.7	7.5	10.6	2.9
Furniture	0.2	0.3	0.3	0.9
Health	3.3	5.2	6.5	6.6
Transport	7.6	9.0	10.7	11.1
Education	5.2	5.0	5.2	5.4
Insurance	2.8	2.7	2.8	3.2
Other	7.2	8.0	8.4	9.6
% change in consumption between 2008 and 2017				
Household	104.5	157.5	73.8	91.9
Food	-61.8	-55.1	-21.3	-5.2
Personal items	64.7	68.0	35.4	33.6
Clothing	109.0	9.1	98.9	-21.4
Furniture	-81.0	-36.8	-84.2	-65.4
Health	63.5	-1.3	-26.9	-66.5
Transport	-22.5	-42.3	-49.0	-39.1
Education	-49.6	-55.4	-5.2	-5.9
Insurance	-28.6	-59.8	-56.3	-37.9
Other	39.5	69.8	29.1	54.2

Sources: Authors' own calculation based on NIDS wave 1 and 5 using post stratified weights

Notes: The percentage change shows the changes in consumption as a proportion of their respective totals between 2008 – 2017.

It is interesting to note that healthcare expenditure increases across the classes, with the elite spending more than double on healthcare than the poor. One can infer that households initially start by using the public health system and, as they transition to other classes, they make the switch to private health care.

The percentage change in the consumption schedule from 2008 to 2017 shows that the share of expenditure on household items has increased for all class categories, with the most significant increase coming from poor households. This could have been induced by increasing utility bills over the last nine years. Food expenditure has

declined for all class categories. This means that all households have been impacted by rising food costs in the country, thereby directing more expenditure towards other goods and services over time. Health, insurance and transport are part of expenditures which have declined as a result of a significant increase in household items expenditure. The cost cutting measures on health and transport, especially for the poor and vulnerable, will mean an increased reliance on the public health and transport system (especially with the rapid petrol hikes). However, the transport expenditure is less notable for the middle class and elite. This implies higher-earning households that are financially capable are willing to incur higher transport costs in order to maintain their lifestyles, as it remains relatively affordable to do so.

3.4.5 Debt Schedule

The debt schedule is not based on expenditure data, but rather on the total outstanding debt of a household. Various outstanding debts are measured as a proportion of total outstanding debt, including a bond, bank loans, study loans (combined bank and study loan with an institution other than a bank), vehicle, credit card, hire purchase, store card and family and friends. The figures are in annual (mean) percentages.

Another popular source of credit among low-income households other than the banks is loans from family and friends. When households are not able to obtain credit from other sources, they will go to those that are closest to them. Similarly, *mashonisa* (loan sharks) are only used by the lower income households, when they find no assistance from formal lending institutions or family and friends.

Hire purchase agreements are used to finance durable commodities with a life span of three to five years. We observe that lower income households are the ones who

primarily engage with this type of debt, demonstrating that they are not able to pay for retail items in cash and therefore make purchases by means of credit agreements.

Table 8 shows the share of total outstanding debt for various debts by class.²⁸ It is evident that mortgage debt is the predominant type of debt for the middle and elite class; these results are in accordance with those observed in the prior descriptive results. Vehicle and credit card debt form part of other substantial types of debt mostly held by the middle and elite class. The lower-income groups tend not to be in a position to finance a vehicle and credit providers may shy away from issuing credit cards to these consumers due to their risk profile being affected by their affordability concerns, given that this type of unsecured credit is more expensive. Store card debt is substantial for all classes except for the elite, ranging from 42% to 27% of total outstanding debt. Since the lower income households may have limited access to credit cards, this type of credit enables these households to finance items that may not otherwise be affordable through an upfront cash payment. However, it is surprising to see that the biggest debt held by the middle class is store cards. This is indicative of a middle class that is financially constrained and continues to consume on credit.

Another popular source of credit among low-income households other than the banks is loans from family and friends. When households are not able to obtain credit from other sources, they will go to those that are closest to them. Similarly, *mashonisa* (loan sharks) are only used by the lower income households, when they find no assistance from formal lending institutions or family and friends.

²⁸The wave five questionnaire listed types of debt some of which are not included in wave one, therefore for comparability purposes the types of debt that do not correspond to wave one were not included. To see the full table with all the various types of debt found in wave five, see appendix Table A.3.

Hire purchase agreements are used to finance durable commodities with a life span of three to five years. We observe that lower income households are the ones who primarily engage with this type of debt, demonstrating that they are not able to pay for retail items in cash and therefore make purchases by means of credit agreements.

Table 8: Debt schedule for 2017 and percentage changes in debt from 2008 to 2017 (%)

	Poor	Vulnerable	Middle class	Elite
Bond	1.7	6.3	19.6	44.6
Bank	17.4	23.9	20.4	10.9
Micro-lender	1.6	2.0	0.9	0.7
Mashonisa	8.0	2.4	1.5	0.0
Study loan	2.0	0.9	1.3	0.7
Vehicle	1.5	5.5	15.6	26.2
Credit card	3.2	4.1	8.3	10.4
Store card	41.8	43.8	26.6	5.5
Hire purchase	8.1	5.2	3.3	0.5
Family & friends	14.9	6.0	2.7	0.6
% changes in debt schedule between 2008 and 2017				
Bond	-13.2	-47.3	-27.4	29.8
Bank	115.7	51.3	124.7	187.6
Micro-lender	-44.4	313.7	-13.4	0.0
Mashonisa	18.1	-14.4	666.1	-100.0
Study loan	18.8	-0.3	-50.6	1104.8
Vehicle	85.6	-25.6	-13.0	7.3
Credit card	0.9	7.6	-35.5	-25.0
Store card	-16.3	-4.1	7.8	-64.6
Hire purchase	-45.8	-38.1	-13.9	-86.6
Family & friends	49.6	106.1	213.9	-86.5

Sources: Authors' own calculation based on NIDS wave 1 and 5 using post stratified weights

Notes: The percentage change shows the changes in debt as a proportion of their respective totals between 2008 – 2017

The debt schedule shows a differing debt profile for the various classes. The lower classes smooth their consumption through the use of unsecured lending and the higher classes use credit for both smoothing out consumption (particularly the middle class) and asset accumulation.

The percentage change in the debt schedule from 2008 to 2017 (the second half of Another popular source of credit among low-income households other than the banks is loans from family and friends. When households are not able to obtain credit from other sources, they will go to those that are closest to them. Similarly, *mashonisa* (loan sharks) are only used by the lower income households, when they find no assistance from formal lending institutions or family and friends.

Hire purchase agreements are used to finance durable commodities with a life span of three to five years. We observe that lower income households are the ones who primarily engage with this type of debt, demonstrating that they are not able to pay for retail items in cash and therefore make purchases by means of credit agreements.

Table 8) shows a decline in mortgage debt over the period, suggesting that the formal lenders are becoming more stricter with granting mortgages. Furthermore, high levels of indebtedness make it difficult for meaningful credit expansion, although the elite did show marginal positive growth during the period of analysis. Bank loans increased on average across the board. There was also an increase in loans from family and friends, except for the elite class where this type of debt was significantly reduced. Credit card debt showed a decline for the middle and elite class. This could be due to households perceiving the use of credit cards as being relatively more expensive and thus using other sources for affordable credit to finance expenditure, such as a personal loan from a bank leading to an increase in bank loans. Store credit had negative growth for all the classes except the middle class. The implications are that middle class households are more financially constrained and their appetite for debt has increased, forcing the middle class to seek retail debt.

3.5 Conclusion

Households enter into debt for various reasons which include, “consumption smoothing through temporary income downturns; or in anticipation of higher future income, financing the acquisition of consumer durables and housing; human capital investment through education and training; portfolio investment in financial assets when returns look favourable; or to offset what could otherwise be excessive amounts of savings implied by occupation pension rules” (Aron & Muellbauer, 2000: 22).

This chapter has shown that there is a positive relationship between income and debt. Lower-income households are less likely than high income households to have debt. This is because lower-income households have less access to formal lending institutions. The results also show that debt is disproportionately distributed across racial lines and, when the mortgage is accounted for, we observe high levels of indebtedness for the African population group. This race group holds a high level of debt, specifically in the middle class and elite.

Rising indebtedness has some positive attributes as it indicates that an increasing proportion of households are gaining access to credit. But there are also serious concerns as lower-income households are increasing their expenditure on food and personal items and the debt schedule shows that this is financed through retail credit. The proportion of debt that is attributed to mortgages is declining over time for low-income households, thus implying that debt is not being utilised to accumulate assets. On the other hand, one would expect to see lower levels of debt such as store credit for the middle class, but it seems to be increasing over time, while this type of debt decreased for other classes.

Credit can play a vital role in attaining upward mobility (De Wet et al., 2015). But this is provided debt is utilised to acquire assets, such as a home, vehicle or education rather than to fund consumption of frivolous non-essentials. However, the lack of awareness among consumers, in addition to an expanding credit industry, can result in households becoming over-indebted.

Chapter 4: Discussion of qualitative aspect of the study

4.1 Introduction

An analysis of debt cannot be looked at in isolation. It should be evaluated using various aspects of social science disciplines. Lunt and Livingstone (1992) suggested that debt should be examined from an economic, sociological, social, psychological and demographic perspective. Thus far, South African literature has not presented research that intricately weaves all these various perspectives together to provide a more complete analysis of household debt.

Chapter 2 shows that, when using the vulnerability approach, the middle class is small and grew slowly between 2008 and 2017. However, we find that the African share of the middle class has experienced rapid growth during this period. We further observed in Chapter 3 that middle class households held a proportionately high amount of debt relative to other classes. In 2008, however, there was a decline due to households exiting the middle class on account of economic vulnerability (see Chapter 2). Furthermore, the African population group exhibited high levels of indebtedness, specifically in the middle class and elite.

To understand the nuances of the indebted African middle class adequately, in-depth interviews were conducted. This was done in order to better understand the drivers of consumption and debt among the African middle class following the data analysis in Chapter 3. The rest of this chapter is organised as follows: an explanation of the methodology used for this research, followed by personal stories of indebted members of the African middle class, followed by concluding remarks.

4.2 Methodology

This aspect of the study employed a qualitative research methodology. A qualitative approach was appropriate for the study as it allowed the researcher to explore how decisions are reached among a sample of respondents (Silverman, 2013; Hammarberg et al., 2016). In an attempt to gain further insight into the indebted African middle class, in-depth semi-structured interviews were conducted exploring diverse contexts and cities. The interviews were in-depth and semi-structured to allow the researcher to have a framework of themes to explore without restricting the interview process to a rigid set of questions (Hammarberg et al., 2016). This allows the interviews to be tailored contextually, based on the individual being interviewed. The interview guide (questions) can be found in appendix A.4.

Participants who were interviewed were part of the middle class spectrum (including the lower middle class, i.e. vulnerable class) based on the definition adopted in Chapter 2. We decided to interview participants from the three metropolises: Cape Town, Durban and Johannesburg. This was done to elicit information regarding perceptions of being in the middle class, debt, and perspectives on upward mobility in the post-apartheid era across various settings in South Africa.

Due to time and resource constraints, sampling of the participants was undertaken utilising snowballing and convenience methodologies. Snowball sampling is a non-random sampling method which involves participants nominating other participants to be part of the research, and so the cycle goes until the desired sample target is achieved (Uprichard, 2013; Hammarberg et al., 2016).²⁹ For this study, there was a total sample size of 37 participants, with a minimum of nine participants per city in

²⁹ A representative sample will not be obtained, but would rather be an approximation.

which interviews were conducted. The participant's ages ranged from 24 to 71 years old. The selected adults had some form of employment.

Before the interviews, participants filled out a demographics questionnaire (see appendix A.4) with questions pertaining to age, gender, education, income etc. Given that debt is a sensitive topic, it was difficult to probe the particulars of individual income, expenditure and what they owed, so the questionnaire provided the means for participants to be able to have some level of discretion. This was followed by the participants engaging in an interview lasting at least 20 minutes sharing their experiences concerning attitudes towards class and indebtedness. The questionnaires were used as a method to get respondents comfortable before asking them personal questions. The purpose was to promote frankness during the interviews, given that indebtedness is a sensitive topic.

Ethical Considerations

Ethical guidelines were followed throughout the data collection process.³⁰ These included making sure participants were aware of the scope of the study and informing them that their participation would be confidential. The consent documents were explained by the researcher in written form and verbally and then signed by the participant (can be seen in appendix A.5). The consent form explained the participants' rights in the study. All interviews were recorded with consent received and no specific names were mentioned or recorded.

To maintain privacy, the referrals recommended by the participants were not shared and participants were informed they would be referred to using pseudonyms to protect their identities in the study.

³⁰ This research was granted ethical clearance by the Commerce Faculty Ethics in Research Committee.

4.3 Descriptive Statistics of the Sample

This section will provide a brief outline of the sample interviewed based on the questionnaire and responses from the interview.

Table 9 shows the relevant characteristics of the African middle class interviewed for this study. The mean age of the participants was approximately 39 years and they had, on average, 3 dependents. While this is in line with the NIDS data (see Chapter 2), there was a strong sense of family assistance reported by participants. This can be categorised as black tax and is explored further in the next section. More females participated in the survey than males. A large proportion of the sample had a tertiary education (especially a postgraduate qualification) and employment in occupations that require high skills. There were only two participants who had a basic education and employment in jobs that do not require a significant level of skills. This is consistent with the middle class characteristics indicated in Chapter 2, but also reveals inequalities in the labour market, especially for those at the fringe of the lower middle class.

The majority of the sample interviewed had a monthly household income of R30 000 or more (after-tax) (see appendix Figure A.6). Some of them would be categorised as the elite and are conscious of setting aside money for savings every month. However, Table 9 also shows a high level of total outstanding debt carried by the participants, and it should be acknowledged that many gave approximations as they could not recall their total outstanding debt. The type of debt held most, as shown in Table 10 below, is a credit card, followed by retail store cards and then a house loan. This suggests that the African middle class participate in expenditure that is not always considered to be wealth improving.

Table 9: Mean characteristics of selected participants

Co-variate	Mean
Total debt	R424 839
Age	38.6
Dependents	2.7
Gender %:	
Female	51.4
Male	48.7
Marital status %:	
Not married	67.6
Married	32.4
Education %:	
Basic education (Gr1- Gr 12)	5.4
Certificate	5.4
Diploma	21.6
Bachelor degree	10.8
Postgraduate	56.8
City %:	
Cape Town	27.0
Durban	24.3
Johannesburg	48.7
Occupation %:	
Low skilled	5.4
Medium skilled	18.9
High skilled	75.7
Save every month %:	
No	24.3
Yes	75.7
Family assistance (Black tax) %:	
No	29.7
Yes	70.3

Source: Authors' own calculation based on questionnaire and interviews.

Table 10: Type of debt held by participants

Debt type	% of indebted (n=37)
Bond	29.7
Credit Card	46.0
Over-draft	10.8
Store card	35.1
Bank Loan	27.0
Hire/vehicle finance	13.5
Student loan	8.1
Mashonisa	2.7
Family/friends	5.4

Source: Authors' own calculation based on questionnaire and interviews

4.4 Personal Stories: Fragility of the African Middle Class

This section provides a brief glimpse of more subjective experiences of class, debt and aspiration across the three major cities in South Africa (Cape Town, Johannesburg and Durban). The analysis of data in the previous chapter points to a financially constrained middle class. However, it fails to point out what causes the African middle class to live beyond their means and how the most important kinds of expenditure for the African middle class are not ill-considered, but entail investments now regarded as essential. These include life cycle events, such as weddings and funerals (burying family members with dignity), higher education, marriage payments and buying a house.

The African middle class has been identified by their lifestyle, especially by the media. The adoption of middle class behaviours by Africans in the democratic era has meant a shift in identity and an appetite for consumption. This stems, in part, from a self-definition of affordability and is explained by Southall (2016) as “a widespread view among black people that black middle classness involves not only the aspiration for

better standards of living and the acquisition of consumer goods, but the economic capacity to acquire them” (Southall, 2016: 163).

Themba (29), a building manager from the south of Johannesburg aspires to a lifestyle lived by those around him. Initially raised in a lower (working) class household in rural KZN, he comments on the difference in lifestyle between KZN (where he grew up) and Johannesburg and goes on to say:

in KZN there was no pressure living in a rural area, ... I mean it is a cheaper lifestyle. Yeah, I think there is a difference, there's a very huge one. The person that would live that side [in KZN] would have seen the lifestyle that I live here [in Johannesburg]

In the interview, he refers to a tough upbringing where his mother, a single parent, raised him and his siblings. Themba mentions that, to conform to the lifestyle in Johannesburg (when he initially moved from KZN), he took out loans to keep up with appearances. It is clear that he fell prey to societal pressures and had to signal his wealth, not only to his peers, but his family as well. When asked how he spent his discretionary expenditure, his response was “Seeing that I am quite young it is a lot of partying”. The conspicuous consumption engaged in by Themba further feeds into the narrative of the lifestyle of ‘black diamonds’ suggested by marketers and literature in South Africa.

The types of debt currently held by Themba include bond, personal loan, credit card and car finance, which totalled approximately R900 000 including the bond and approximately R80/90 000 excluding the bond. When pressed on the reason for the use of the personal loan, he says it was not used for him, but to help with renovations “back home in rural KZN”. He felt there was no sense of obligation from his family for

him to assist in the renovations but it was something he wanted to do. The precariousness of his lifestyle is further highlighted by the need for him to assist his extended family, known as black tax. Themba placed a negative connotation on his description of black tax and went on to say:

It causes a lot of conflict in the family as well. It creates a barrier between the level of lifestyle and so it ends up becoming a responsibility. Let me put it this way, if every month I had to contribute whatever amount and send it onto the family back at home, but the problem now comes where someone else looks at your lifestyle and the way... and judges you according to that and then starts having expectations... And so, the day you cannot [contribute] you get judged according to that and it causes conflict, so it's a set-back. So, if black people didn't have that...

He feels as though his white counterparts are not constrained by such issues, thereby increasing their chances of upward mobility in a shorter time frame. The obligation to assist his family regularly affects how he deals with his unexpected expenditures since his family also expect him to contribute regularly. The reality for Themba, as a member of the middle class, is that he has little disposable income left once he has accounted for his monthly essentials, including black tax and what is left he chooses to use on conspicuous consumption, leaving him a victim of fragility and debt.

Juxtapose Zandile (29) from central Cape Town who holds an honours degree. She was raised by her mother in a working-class household in a township in KZN. Her mother could only afford to take her to a low fee paying primary school, where most students could not afford school fees and were highly dependent on a feeding scheme. By the

time Zandile was in high school, her mother had started earning a higher salary and moved to a better neighbourhood which she characterised as lower middle class.

She considers herself to be part of the middle class, based on the fact that she can afford to live alone in an expensive city. She has a "job that pays me a steady salary that is in a specific income benefit and tax bracket. I also think that I have far more social mobility, I think than other people in specific areas of Cape Town". Zandile describes the neighbourhood she lives in as filled with relatively upscale restaurants that are usually well patronised, accompanied by individuals that drive "nice" cars. When Zandile was further probed as to whether she partakes in the aforementioned consumerism, her response was "not often, only when she has the funds to do so". However, she did emphasise she would not use credit to fund her lifestyle.

The only form of debt that Zandile has currently is her store card (Woolworths account) and credit card which she owes R1 300 on in total. The former credit she uses as a transactional account, but both store and credit cards are paid off every month end and serve to create a good credit record. Coming from a difficult upbringing, Zandile is conscious of her lifestyle and how she spends her money. This can perhaps (in part) explain why she is not part of the narrative of the over-indebted middle class engaging in high levels of consumption like Themba. It is also interesting to note that Zandile indicated that, although she is not affected by black tax, her mother was, which she feels contributed towards the slow growth in their upward mobility during her childhood.

Zandile is not alone; there are many similar life stories. There were at least a handful of other participants across Cape Town, Durban and Johannesburg who reported that they live within their means and the debt they incurred they were able to manage with

their current stream of income. When it comes to black tax, they acknowledge that they have heard of the term but are not personally affected by it. These individuals are more frugal in their consumption and have a tertiary level of education.

Not everyone who considers themselves to be middle class can afford to indulge in frivolous expenditure. Elizabeth (54) believes herself to be part of the lower middle class and struggles to make ends meet as the sole breadwinner in the household. She works as a cleaner and lives in an informal settlement in Cape Town with her four children. She originally moved to Cape Town from the Eastern Cape in search of greener pastures, coming from a background of poverty where, growing up, both her parents were unemployed.

Since Elizabeth is barely able to afford the necessary basics for her family, she often finds herself borrowing money from *mashonisa* (loan sharks) and colleagues at work. Her total debts amount to R2 700, the loan from the *mashonisa* is R2 000, but Elizabeth is charged an exorbitant interest rate of 30% per month. The loan from the *mashonisa* was taken out in mid-December 2018 however, due to financial constraints, she had to defer repayment by two months. Elizabeth is no stranger to holding debt as, at the time of the interview, she had just completed repayment for a loan taken out with Standard Bank totalling R11 000. She relayed how much she struggled with this debt repayment, to the extent that she had to undergo debt counselling. This was recently paid off and the loan was used to assist with renovations at her parents' home in the Eastern Cape. It is clear that Elizabeth experiences black tax; she states that it is not an obligation but rather an act of service and gratitude.

Debt has affected Elizabeth and her household lifestyle as she has needed to make concessions, "like maybe you used to spend R2 000 on groceries but then you stop

doing that and then you start spending R500 on groceries”. Unlike the established middle class, Elizabeth is on the brink of poverty. She is borrowing to try to smooth out her consumption and is not only looking after her household but her family in the Eastern Cape as well. Her course of relief comes from the rotating Stokvel that she is a member of. Despite all the hardships she has to endure, she believes that her quality of life is improving “little by little”.

There are also those who earn a higher salary than Elizabeth but can relate to the hardships she has to endure to make ends meet. Zinhle (50), a teacher from Durban, struggles to even categorise what class she is in:

Because I just find myself struggling with many things even though I'm working, I find myself struggling. Like, I know that we are categorized like we're in the middle class and yet when you are supposed to do certain things for yourself, you fail to do them and then you end up feeling like 'I'm not there' which means I'm right at the bottom.

Due to an adverse economic shock (her husband fell ill), their household income declined and Zinhle became the sole breadwinner in the household. From being able to afford to live in a house in the suburbs of Morningside and sending her children to former ‘Model C’ schools in the area, her husband's illness led to the family initially moving in with relatives, then eventually renting a house in the township. When they moved into their rented home, Zinhle resorted to using her credit card to buy furniture, but made it clear that she does not like taking out loans or using credit “I believe in using my money and once that is finished, it's finished”. As a result of this, Zinhle has since paid off that loan and only holds two store accounts which she uses to relieve her consumption burden when essential.

Instead of Zinhle resorting to debt to deal with her financial commitments, she and her family have rather made concessions to their lifestyle. This meant relocating and cutting back on unnecessary expenditure, such as eating out and going on domestic family holidays. During the course of the interview, she contemplated whether her level of indebtedness has perhaps not only affected her financial, but also her mental state. Although it remains a struggle for her family to remain afloat financially and live within their means, credit for Zinhle is not the solution to her problems. This is emphasised by an anecdote on her thoughts on debt and credit:

I was at the bank...and this lady was saying: "I was just here this week just to get the money for petrol [sic], just to get by." I was thinking petrol, a loan, for how much? And I was thinking how do you do that because you know you have to save, I must have petrol to go to work. I'm like eish, ja neh!

In contrast to Zinhle, Pam (24) who is a candidate attorney from the northern suburbs of Johannesburg, only has a student loan and a student credit card (maximum limit spend of R200) and is against the use of credit. However, she describes a life where she feels as though she is living beyond her means:

I am broke right now and it's only 10th of December [2018], like come on. I bought unnecessary things because one, I have natural hair. Natural hair needs to be taken care of. I decided to buy some thousand-rand wig, and like I am not a wigs girl at all and this year that [sic] I decided to do that. So, it is little things like that you are exposed to that you like, oh I am living outside my means. But I never have to ask my parents for money.

Pam attributes living beyond her means to spending most of her income, with a minimal amount dedicated for savings. She admits to partaking in frivolous expenditure and blames it on technology. The internet has provided easy access to consumerism. Pam points out that “there is [*sic*] so many things that are available online that you just want for no good reason, honestly. I blame the iPhone because now we can download everything and anything, [for example] the entertainer app...and you know unnecessary things”. It is clear that cell phone applications and the expansion of internet access in South Africa have allowed individuals to consume, even if it not essential. This demonstrates a vivid contrast between participants, such as Zinhle and Elizabeth, who try to live within their means and avoid unnecessary credit and consumption, and those who engage in non-essential consumption, with and without the use of credit. The latter is driven by different motives as alluded to in Pam and Themba’s case studies

Another common theme among the participants is the deferral of debt. Simphiwe (26), an IT consultant from Durban, has accumulated approximately R90 000 - R100 000 worth of debt. He has no intentions of paying the debt off any time soon and when questioned when he estimates repayment, he projects in three years. The debt he has accumulated consists of vehicle financing, credit and store card. Simphiwe was not able to consistently maintain repayment of his vehicle loan, resulting in his car being repossessed and some of that debt has carried to date. His credit card was used to assist his family, which “was the main thing that put me in debt”, according to Simphiwe. He attributes the store card as something that was forced onto him by a friend and was used initially when there was a major event such as a wedding, but admits that, over time, he became “comfortable” with buying on credit. Simphiwe has accumulated a significant amount of non-investment related debt for his age, and the most worrisome aspect of this is his lack of concern, given that he does not have enough

discretionary money dedicated to savings. He views his over-indebtedness as a mechanism that provides discipline in his life. Since he is in arrears, he knows that he will not be able to take credit or open up other store accounts and thus sees it a useful constraint for the time being. This myopic behaviour towards debt will limit Simphiwe's ability to use credit as a method of accumulating assets in the foreseeable future.

In a related case, Dakalo (36), an intellectual property officer from the southern suburbs of Cape Town was in arrears previously because he was over-indebted. He explains getting into arrears by "working the system" which involves credit providers following a set of procedures before taking legal action and, as a trained lawyer, using that knowledge to his advantage. He gives an example of how, in the past, the bank tried to repossess his car, and sent him threatening letters, but he says there is a three-month waiting period before they can repossess his car. Just before the third month, he would make the necessary payment which would reset the procedural clock (the bank would again have to wait another three months to take his car if he defaults again). Trying to 'work the system', Dakalo knew was self-defeating and was delaying the inevitability of the credit providers eventually succeeding.

Unlike Simphiwe and the other indebted participants, Dakalo points to his over-indebtedness resulting from banks offering loans, credit cards and overdraft facilities he did not need and using this credit for conspicuous consumption. Dakalo has learnt from his days of debt avoidance and living beyond his means by engaging in frivolous consumption. Now, he only has good debt, which is wealth creating as he builds his asset base.

The upper-middle class that are highly indebted view debt differently. Zamani (52) from Johannesburg is a businessman who leverages debt for business projects. He took out a R1 000 000 loan for this purpose. His aggregated debt is R5 000 000, most of which is assigned to a bond for his properties. This debt has led Zamani into arrears and has also affected his household's lifestyle. However, he believes the sacrifices he has made today will pay off tomorrow. The experiences of Zamani and Dakalo is part of a narrative of the established middle class who are increasing their asset ownership, as conspicuous consumption decreases. This is because, the need to demonstrate economic status declines. This experience is in accordance with the literature (see Chapter 3).

4.5 Conclusion

Researching the indebted African middle class has meant exploring diverse contexts, places and people. The case studies have shown that debt is nuanced for the African middle class. The upper middle class debt stems from lifestyle whereas lower middle class (vulnerable), and working class debt comes from trying to make ends meet. Cosmopolitan cities, where the research was conducted, tend to have individuals living quite opulent lifestyles. This indicates that consumer habits shift through the lifecycle, older individuals having less inclination to engage in conspicuous consumption than the younger and less established. To many younger individuals, access to credit is considered as a precursor to an enjoyable life. The younger individuals are part of the emerging African middle class, so they seek to differentiate themselves from the working class by living the life of the upper, more established, middle class. In part, this is also explained by societal pressures in cosmopolitan cities.

Another significant factor that contributes to the African middle class being in debt is the black tax, which is not acknowledged in NIDS data. Overall, some participants

enter into debt in order to help family members. The attitudes of the youth differed to that of the older participants regarding this. For younger individuals, there is a general conception of black tax being perceived in a negative light; they see it as a burden and constraint on their aspirations to upward mobility. Whereas older individuals see it, not as an obligation, but rather as an act of service and gratitude towards those that helped raise them and is labelled '*ubuntu*'. There is a change starting in African society as people are becoming more individualistic and focusing more on the nuclear family and less on the extended family. A few participants did not acknowledge assistance to their immediate family member as black tax, but this sentiment changed vis-à-vis extended family members.

The interactions from the interviews demonstrate that over-indebtedness among the African middle class in South Africa is multifaceted and not determined by one main contributing factor. Its complexity is bound by up with identity, status and aspirations for upward mobility (James, 2016).

Chapter 5: Summary and Conclusion

5.1 Summary

The expansion of the credit market post-apartheid and the policy role played by the state has, in part, contributed to the growth of the African middle class. For some, the achievement of upward mobility, which is accompanied by a comfortable lifestyle, has been made possible because of state patronage. For those with no income at all, credit is difficult or nearly impossible to come by, further widening the pervasive inequality in South Africa (James, 2016). Debt has a negative connotation, but it does have positive attributes in that it enables people to improve their lifestyles (provided it enables investment) and aids in the accumulation of assets. On the other hand, excessive borrowing can have unintended consequences if it remains unchecked.

During the 2000s, there was a spike in consumption which was driven by consumer credit. Rising debt levels have been driven by the African middle class, in particular, threatening the overall growth of the middle class. Thus, to combat the surge of consumer debt, there has been the promulgation and implementation of the NCA which is meant to protect consumers, bringing a balance of power between consumers and credit lenders.

The purpose of this dissertation, set out in Chapter 1, has been to study the indebtedness of the African middle class using two types of discrete data. The first being the NIDS data between the periods of 2008-2017 and, secondly, case studies derived from in-depth interviews. The NIDS data paints a general picture, while the latter is more illustrative in nature. This study considered firstly how the middle class is defined. For South Africa, this can be complex, because a large portion of the population who are considered to be part of the middle class, are at the fringe of falling back into poverty (as outlined in Chapter 2). Chapter 2 provides an overview of a wide

array of definitions of the middle class, as suggested by the literature. What was clear was that most definitions are not suitable for a developing country and those that were identified as suitable, failed to account for the contextual socio-economic conditions. Each definition suits different aims (Southall, 2016). Having identified the need for a middle class definition suitable for the South African context, we follow the vulnerability approach used by Zizzamia et al., (2016) as the primary identifier for class thresholds.

The underlying premise of the vulnerability approach relates to members of the middle class being reasonably secure against falling into poverty. Thus, the monthly per capita expenditure threshold range utilised to determine the middle class is R3 577 to R11 971 (March 2017 prices). The analysis based on the vulnerability approach shows a South African middle class that is relatively small and has not grown significantly between 2008 and 2017. With an estimated population share of 14.5% in 2017, the identified middle class is smaller than the various approaches investigated in chapter 2, section 2.3.1. However, the results indicate a considerable increase in the share of the African middle class between 2008 and 2017, with the number of Africans in the middle class outpacing their white counterparts. Despite this rapid growth, Africans are at the highest risk of falling into poverty.

Next, the dissertation adopted the life cycle theory of consumption and Veblen's theory of conspicuous consumption to evaluate and explain the topic of indebtedness among the African middle class households in South Africa using NIDS wave one and five (2008-2017) data. According to the life cycle hypothesis, households can smooth out their consumption over their lifecycles. However, there are also adverse shocks that cause current income to decline.

The descriptive analyses in regard to total debt in Chapter 3, shows a positive relationship between income and debt. This is emblematic of lower-income households being unable to attain access to formal lending institutions. Africans have more debt than other population groups, with a high mean growth of debtors in the middle class and elite categories. When the mortgage is accounted for, debt decreases significantly for the middle class and elite households. The share of debt associated with age increases initially and then declines as old age approaches. There is an upward trend for education; the more educational years accumulated by the household head, the larger their share of the debt. This is per the life cycle hypothesis. The type of occupation shows an upward trend for household heads that are indebted; with the highly skilled holding the highest levels of debt.

Estimates drawn from the consumption schedule show expenditure devoted to food is higher for the poor and vulnerable and expenditure on transport, education, health and insurance is more substantial for the middle class and elite. Expenditure on clothing decreased for all groups throughout the analysis, except for the middle class which experienced growth. Concerning the debt schedule, housing debt, bank loans, vehicle and credit card debt are the highest types of debt for the middle class and the elite. Store card, family and friends, bank loans and *mashonisa* are the types of debt that are dominant for the poor and vulnerable. Although store card debt is high for the poor and elite, it is interesting to observe that it is the highest type of debt for the middle class, and also increased during the period of analysis (2008-2017). This increase in store-card debt for the middle class is aligned with the increase in clothing expenditure. There was a noticeable increase in bank loans across all class categories, a decline in hire purchase agreements offset this and housing debt, with the exception of the elite whose bond debt increased. The middle class was the only class category to have a decrease in study loans.

Chapter 4 of the dissertation analysed the nuances of the factors contributing to the over-indebtedness of the African middle class through in-depth semi-structured interviews. The personal stories told by the participants were used as case studies to gain a more nuanced understanding of the indebted African middle class.

The case studies revealed that consumer habits shift through the lifecycle; the younger participants were more likely to engage in conspicuous consumption, whereas the older participants were less likely to engage in this type of expenditure. Black tax is one of the prominent contributing factors mentioned by participants across the board as a conduit to debt. The youth mainly viewed this as a constraint to their aspirations of upward mobility. Participants that are part of the emerging middle class cohort seek to distinguish themselves from the working class by living the life of the more established middle class, due to societal pressures felt by consumers in cosmopolitan cities.

5.2 Concluding Remarks

The examination of consumption and lifestyle has become important in how class is determined in South Africa. It has affected how the African middle class recognises itself vis-à-vis the rest of society and it has been postulated that this subpopulation group is engaging in unsustainable consumer debt (Southall, 2016). In line with the literature and local commentary, this study finds evidence suggesting the African middle class households are highly indebted.

The growth of household debt can have positive benefits. It can indicate that the household has a considerable access to credit opportunities, which helps to stimulate aggregate demand but also contributes to the banking sectors profit margins; thereby

aiding in boosting economic growth and funding the accumulation of wealth improving assets. On the other hand, a significant dependence of households on debt to support their consumption will pose a threat to the economy when any negative shock occurs (Khan et al., 2016).

African middle class households tend to spend a significant portion of their income on consumption that can demonstrate their wealth, in particular for the new entrants to the African middle class. As this group becomes more established, they converge towards the classical notion of the middle class whose consumption patterns have been likened to that of the white middle class, which participate less in signalling their wealth as their asset levels increase. Generally, whites do not tend to display their wealth and status; this has been part of their upbringing, and they have thus become accustomed to it (Southall, 2016). Therefore, it is vital to be cognisant of the historical asset deficit of the African population in comparison to their white counterparts, as spending patterns of the African middle class also indicates closing the chasm on asset ownership.

There are also those in the middle class, identified as the ‘floating’ (vulnerable) middle class, who borrow for survival to meet basic needs. These households are on the edge of slipping back into poverty; further perpetuated by the weak Rand, as well as petrol and food price increases. It is, therefore, no surprise to see a growing number of middle class members resorting to credit to survive. Understanding over-indebtedness in the African middle class is not simple; it is a multifaceted picture. It is therefore vital to protect them from predatory credit practices in the industry. If used in moderation, debt can be used to smooth out consumption and improve overall welfare and promote economic growth.

5.3 Implications

5.3.1 Implications for Policy

State policies such as BEE and Affirmative Action (AA) have influenced the growth and nature of the African middle class. These types of policies have created a small but distinguishable group of African capitalists. However, this study shows that there are those who are part of the middle class who are vulnerable and only capable of meeting basic household requirements. In order to prevent the middle class population from falling back into poverty, the government needs to address the skills gap.

Furthermore, the inferior educational system, high unemployment rate and the lacklustre economy do not bode well for the expansion of the African middle class. This is creating inequality within the African population as ‘the haves’ grow richer and the ‘have nots’ grow poorer, translating into a more polarised social and political landscape. It is further fuelled by the policies (that is, BEE and AA) that are meant to address this very issue, with their intended effects not trickling down to the general population.

Significantly high levels of borrowing by households will affect not only the banking sector, but also social cohesion. This can exacerbate poor economic performance in the country (Khan et al., 2016). Over-indebtedness by households in South Africa is ascribed to reckless lending that is practised in the credit market, low levels of awareness, a lack of enforcement and little acknowledgement of the probability that some households might find themselves borrowing beyond their means, excessive consumption (especially among the emerging African middle class) and repayment constraints due to adverse shocks. The NCA is meant to assist in this regard. While it does provide formal recourse, policymakers and regulators need to take stock of these problems. An adjustment of the existing framework is needed.

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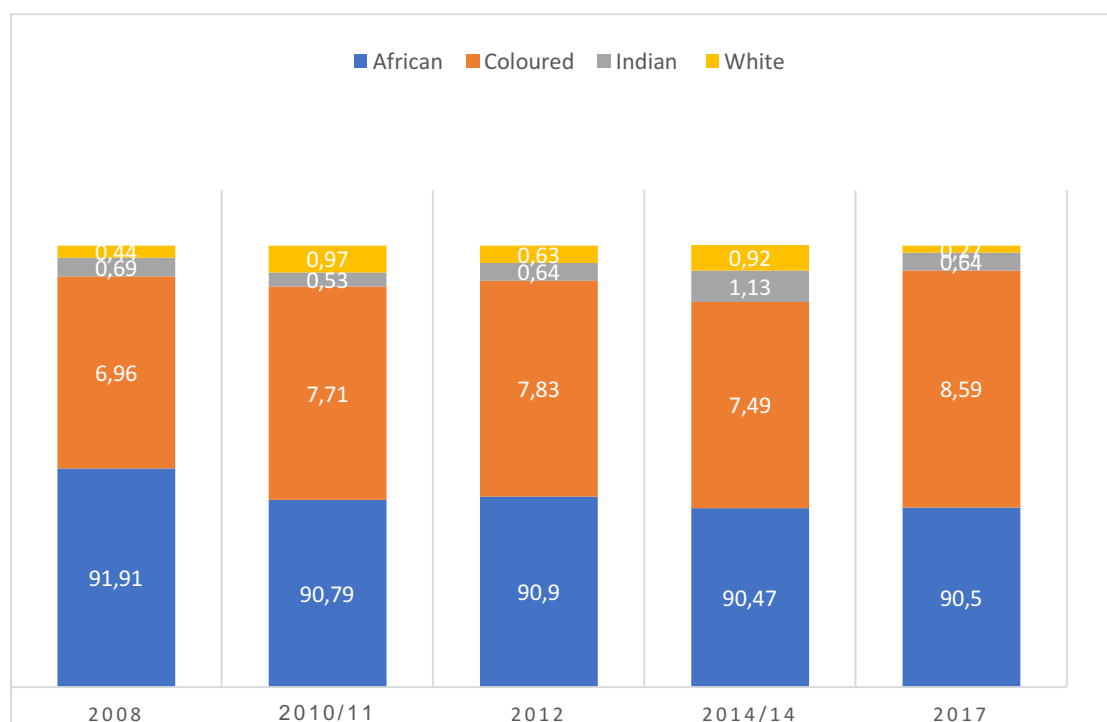
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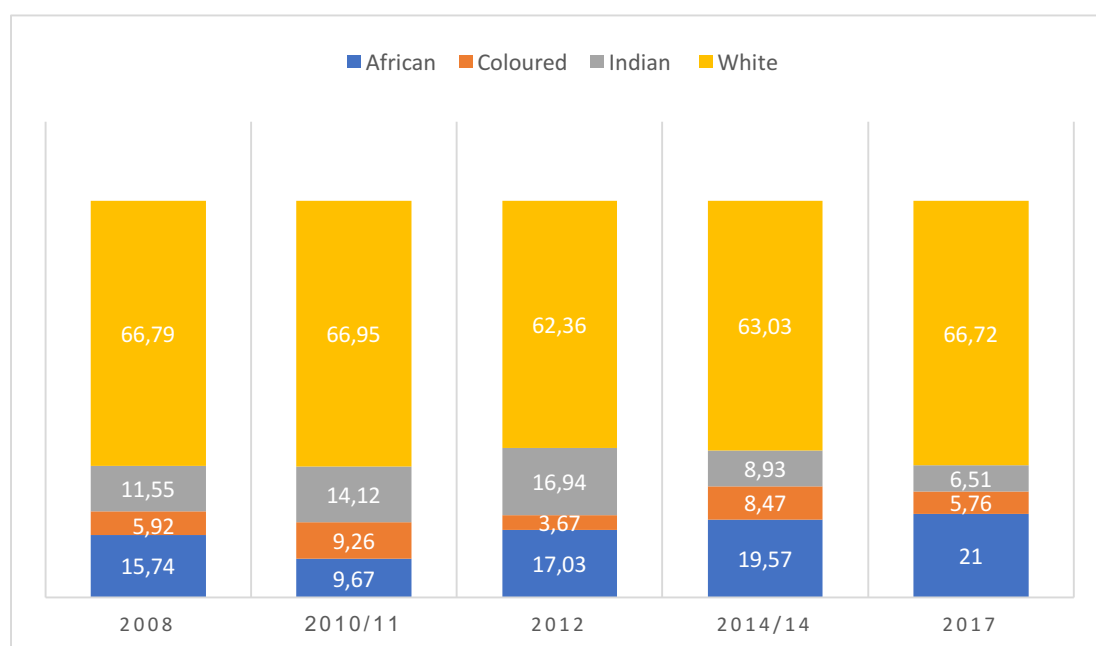
Appendix

Figure A.1: Racial composition of the Poor class from 2008 to 2017



Source: Authors' own calculation based on NIDS wave 1-5 using post stratified weights.

Figure A.2: Racial composition of the Elite class from 2008 to 2017



Source: Authors' own calculation based on NIDS wave 1-5 using post stratified weights.

Table A.3: Full Debt schedule for 2017 (%)

	Poor	Vulnerable	Middle	Elite
Bond	1.66	6.26	19.61	44.59
Bank	17.38	23.93	20.35	10.88
Micro-lender	1.62	2.03	0.93	0.72
Mashonisa	7.96	2.42	1.45	0.00
Study loan	2.02	0.93	1.30	0.70
Vehicle	1.47	5.46	15.57	26.18
Credit card	3.17	4.05	8.28	10.35
Store card	41.80	43.75	26.54	5.51
Hire purchase	8.06	5.21	3.31	0.45
Family & friends	14.87	5.95	2.66	0.62
Bills in arrears	0.71	0.51	0.68	0.01
Employer loan	1.02	0.80	0.10	0.05
Other	3.99	2.66	0.65	0.73

Source: Authors' own calculation based on NIDS wave 5 using post stratified weights.

A.4: Interview guide which consists of questionnaire and the interview questions

Name.....

Instructions:

1. Kindly respond to all questions
2. The interview consists of 2 sections
 - a. The first section will be filled out by the respondent and the second section will take the form of an interview (Researcher will ask you questions)
 - b. In section 1 kindly mark an X where appropriate

NB: All information gathered will be kept confidential

Section1: Demographics Questionnaire

Age:

Gender:

Female	
Male	
Prefer not to answer	

Marital Status:

Married	
Living with partner	
Widow/Widower	
Divorced or separated	
Never married	

Number of dependents:

Which suburb do you reside in within the city?

Highest education level:

No schooling	
Basic education excluding matric (Grade R- Grade 11)	
Matric (Grade 12)	
Diploma	
Bachelor degree	
Higher degree (Please specify)	
Other	

Employment status:

Unemployed	
Employed	
Part-time	

Occupation:

Household Monthly Income:

(Net income i.e. after tax)

R0- R999	
R1 000- R2 999	
R3 000- R5 999	
R6 000- R11 999	
R12 000 – R17 999	
R18 000- R23 999	
R24 000 – R29 999	
R30 000 and over	

Section 2: Interview Questions

- 2.1 What social class do you consider yourself to be and why?
- 2.2 How would you describe the sort of lifestyle associated to the social class you see yourself in?
- 2.3 Which social class would you associate your parents to be in when you were growing up and why?
- 2.4 Would you consider your neighbours or neighbourhood to be of the same or similar social standing as you? (probe if this matters to the respondent and, if

they have children, ask what type of schools they attend or used to attend and if they affected the neighbourhood they reside in)

- 2.5 After tending to your needs (or household needs), do you have enough income left for discretionary expenditure on a monthly basis?
 - 2.5.1 How would you generally spend your discretionary income?
- 2.6 Which grocery shopping outlet do you regularly purchase your groceries from?
- 2.7 Do you own any durable assets (i.e. car, computer/laptop, consumer electronics(phone), jewellery) etc, if yes please describe the assets?
- 2.8 Is there a portion of your income that goes towards savings? If yes what percentage goes toward savings? (this includes stokvel, unit trusts or pension or retirement annuity)
- 2.9 Have you heard of the term “black tax”, if so how would you define it?
 - 2.9.1 Are you personally affected by it?
 - 2.9.2 Do you feel obligated to provide assistance to extended family members?
 - 2.9.3 Has this placed any constraints on your income?
- 2.10 Have you had to go into debt or take a loan recently? (**define what debt is, that is bond, bank loan, loan shark, mashonisa, study loan, vehicle, store card, credit card or hire purchase agreements**) If yes, what factors lead you into it and do you have debt that is currently outstanding or what are your monthly payments?

A household which has answered to having a loan is considered to be positively indebted

 - 2.10.1 Has the debt lead you into arrears?
- 2.11 Would you be comfortable in sharing the amount of debt that you have?
- 2.12 Has debt affected you or household’s lifestyle? (Probe to see what concessions they have had to make because of the debt)

A.5: Consent form



Keeping up with the Khumalo's: An Analysis of the Indebted African Middle Class in South Africa between 2008-2017

Hello, my name is Thabo Scott and I am conducting research towards a Master of Commerce degree in Economic Development at the University of Cape Town (UCT). I am researching the indebtedness of the black middle class and would like to invite you to participate in the project. I am interested in finding out about the progression of the black middle class and if they are living beyond their means by financing their progression through debt.

Please understand that you do not have to participate, i.e. your participation is voluntary. The choice to participate is yours alone. If you choose not to participate, there will be no consequences. If you choose to participate, but wish to withdraw at any time, you will be free to do so without any negative consequences. However, I would be grateful if you would assist me by allowing me to interview you.

I would like to request permission to record our interview. As part of the interview you would answer a few questions that I have prepared through us having a dialogue which would be approximately 20 minutes of your time if you choose to participate.

Due to the nature of the study you will need to provide the researcher with some form of identifiable information however, all responses will be confidential and used for the purposes of this research only and no data will not be shared with third parties.

This research has been approved by the Commerce Faculty Ethics in Research Committee.
Ethics approval reference number: REC2018/009/096

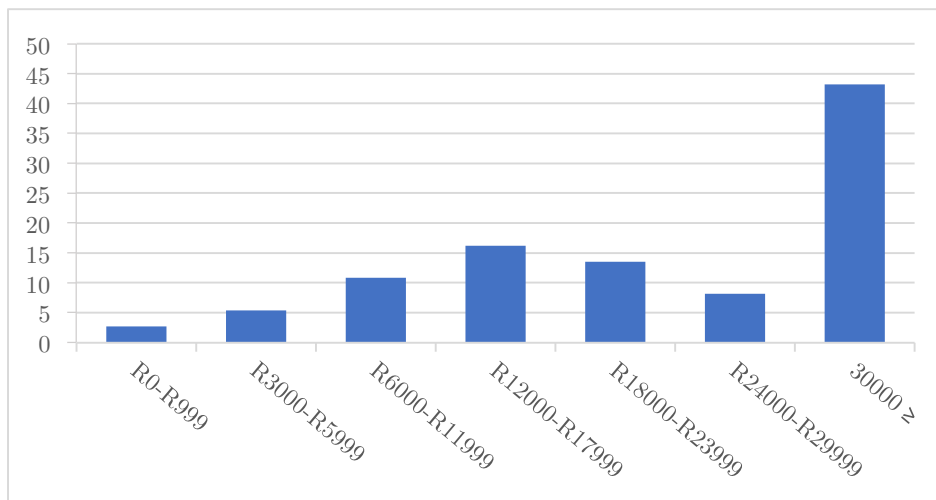
I Understand you may be busy, therefore your agreement to participate in this research project would be greatly appreciated. Thank you for your kind assistance.
Should you have any questions regarding the research project please feel free to contact me at scttha001@myuct.ac.za or thabo.scott.ts@gmail.com.

Supervisor: Prof. Anthony Black
anthony.black@uct.ac.za

Name of participant: Date:

Signature of participant:

Figure A.6: Household income of participants



Source: Authors' own calculation based on questionnaire.