

Cash crunch nails middle class

Desperate middle-class South Africans are battling bankruptcy as punitive taxes shrivel their salaries and a fresh wave of price hikes obliterates what's left.

By Anton Ferreira and Sashni Pather, 9 Mar 2010

Millions of debt-ridden wage earners across the country - including those fortunate enough to get a salary increase in the past year - are on the financial rack.

And the knock-on effect has left domestic workers in dire straits as suburban families cut the hours of household staff.

Great depression

Experts warn that the crunch can be seen in the increasing numbers of depressed people in South Africa.

Zane Wilson, founder of the South African Depression and Anxiety Group, said "there has definitely been an increase" in the number of calls to the group's hotline - from 250 a day to 400 - over the past 6 months.

As people are starting to lose their jobs and have shorter and shorter working hours, they are getting concerned about not being able to pay so many bills.

Plundering pensions

Hard on the heels of the electricity price hike bombshell, the minister of economic development, Ebrahim Patel, this week proposed a new way for the state to dip into the private purse - using retirement funds to pay for development projects.

"By plundering the pension pots, you are targeting extremely vulnerable people, the aged," said economist Chris Hart. "It's just cruel."

Experts said that, despite signs of recovery after two years of economic despair, consumers from Paarl to Polokwane are still struggling to put food on the table once the taxman has taken his crippling cut. Key numbers illustrate the scale of the crisis:

- A 25% increase next month in the price of electricity, which will double by 2012;
- Rising petrol prices - from R4.41 a litre two years ago to R7.91 now;
- School fees, up this year by between 8% and 15%; and
- Medical aid contributions, up by about 11% this year after a 12% hike last year.

As a result:

- Nearly three million consumers are over three months in arrears on their bills; and
- An estimated 250 000 middle-income earners have lost their jobs in the past two years.

"This is the most intolerable situation," said Kathy Gules, 27, a mother of one in Linden, Johannesburg.

"People live on the hope of winning the Lotto and Powerball because there's no end in sight."

Single mother-of-four Nandi Mbovane, 48, a primary school teacher in the Eastern Cape, opened a spaza shop to bolster her income: "Now they say they will increase electricity tariffs again.

"Where am I going to get the money to give my poor kids pocket money if I have to spend R400 for electricity?"

"The best is to close shop so that I can turn off all those fridges," she said.

Taxes and more taxes

Hart said Patel's proposal to dip into pension funds was part of a pattern also seen in the proposed National Health Insurance plan.

"There's a tendency to say there's not enough for us (government departments), so let's raise money elsewhere.

"These are all ideas to raise money and it makes the hidden tax burden very high."

Economist Dawie Roodt said people earning R100 000 to R500 000 a year were "most definitely taking huge stress", caught in a vice between recession and the taxman.

"They are the taxpayers in the economy, but they are not at the receiving end of the (money raised in) taxes," he said.

"The real impact on the middle class is income tax, which is really high, it is punitively high."

Fed up

Journalist Jedidiah Ramalapa, angry with a government "whose only mission in life seems to be to widen their Gucci belts" has created a Facebook group called "Fed Up with Tax Plunder".

Ramalapa said: "Service delivery protests are not the sole concern of what we as the 'middle' class call 'poor' and 'disadvantaged' people in our communities.

"Service delivery is about all of us, affects all of us, whether you shop at Woolies or Pick n Pay, Checkers or a local spaza shop."

Easy advantage

But the tax burden is not entirely to blame for the middle-class crunch. Middle-income earners have driven themselves into massive debt pothole.

They took advantage of easy credit during the boom years, splurged on homes and cars, did not save - and now face staggering interest payments.

The result shows in court judgments against debtors - 2.33 million last year, an increase of 410 000 on 2008.

Standard Bank economist Daneel van Wyk said: "Households have been using credit cards to pay for debt and groceries

Debt counselling

Combined with spiralling grocery bills, higher road tolls and extra airport taxes, it comes as no surprise that nearly 150 000 South Africans are seeking debt counselling.

Said debt counsellor Paul Slot: "They start to cut back on what they can control, like groceries and the phone bill, and discard car insurance.

"There are so many cars that have no cover at all."

Even pets are suffering: Chris Kuch, the national SPCA spokesman, said there had been a marked increase in the number of surrendered dogs whose owners could not afford to keep them.

Professor Carel van Aardt at the Unisa Bureau of Market Research said that although middle-class consumers received "fairly okay incomes", they saved very little.

Job losses

"In case of emergencies - job losses, that kind of thing - they are very hard hit."

An estimated 1.2 million jobs were lost during the recession, about one-fifth of them held by middle-class South Africans.

"When are we going to recover those jobs again?" Van Aardt asked.

"I don't think we're going to get them back soon. A lot of people will remain unemployed while there's increased pressure on servicing debt."

He said that although inflation was officially measured at 6.2% in January, for many people price increases appear to far exceed this figure.

There's little hope on the horizon for people like Gules. She makes about R300 000 a year but has only R3 000 a month left after tax and other deductions.

"This money is used for groceries, nappies and formula - and God forbid there's an unexpected expense," she said.

Additional reporting by Nashira Davids, Zine George and Bobby Jordan.

Source: Sunday Times

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