

PROPERTY BAROMETER – “CONSPICUOUS CONSUMPTION”

With “conspicuous consumption” being a key issue in our society, shifting fiscal focus towards “user charges” and consumption-based taxes makes much sense. But with residential property occupying a key place in consumption habits, a long time period is needed to adapt smoothly.

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The inequality of income and wealth in South Africa has long been a cause for concern. So it should be, as it has the potential to cause discontent and ultimately social unrest amongst the poor. However, I can't help but raise the question as to whether it is actually the unequal and “conspicuous” consumption practices of our household sector which are potentially even more harmful than the inequality of income on its own. It is possibly consumption that is most visible to the poor and has the potential to create the most discontent. It is consumption that hampers longer term economic growth through limiting much-needed savings to fund fixed investment, and it is certain forms of consumption that place strain on the environment. Perhaps, therefore, a shifting fiscal focus towards consumption-based taxation and user charges (as is taking place in the case of increasing utilities tariffs and a broadening of the toll road network) is not a bad thing. Such charges and taxes can also be structured in a progressive way so as to affect the poor less, as in the case of electricity and the like. However, perhaps the underlying cause of discontent amongst the key payers of such charges is the extreme pace of implementation of such charges. Key to an orderly adaptation to shifting costs is a gradual phasing in of such changes, because the adaptation process that households (not to mention companies) have to undergo is difficult and costly, especially where property design and location is involved.

HIGH LEVELS OF INEQUALITY CAN ULTIMATELY CONTRIBUTE TO SOCIAL UNREST AND ECONOMIC INSTABILITY,...

There exists little doubt that South Africa is a country of extreme income inequality. The reality is that under such circumstances of inequality, the risk of dis-satisfaction amongst the poor and ultimately more significant social unrest remains high.

The issue of “skyrocketing incomes” of a few, and the ongoing poverty of many, is not unique to SA. During the last decade it has been raised periodically as a concern in India, a fellow BRICS country whose economy has been growing rapidly in recent times but where huge inequalities remain.

...BUT IS INCOME AND WEALTH GENERATION PER SE THE KEY PROBLEM, OR IS IT ACTUALLY THE “CONSPICUOUS CONSUMPTION” THEREOF?

A key question, though, is to what extent wealth inequality is a potential cause for social unrest, and to what extent is “conspicuous consumption” a key cause of trouble in this regard? Conspicuous consumption is the spending on goods and services acquired mainly for the purpose of displaying income or wealth. In the mind of a “conspicuous consumer”, such display serves as a means of attaining or maintaining social status. In South Africa, a more common term would probably be “keeping up with the Joneses”. The term “conspicuous consumption” is attributed to economist Thorsten Veblen, first believed to be coined in 1899. Some have contended that conspicuous consumption is more prevalent amongst the lower and middle income groups than it is amongst the wealthy, but this is debatable.

Where the boundary lies between consumption for social status, versus consumption merely for “the enjoyment of life”, is also debatable. But I suspect that SA's extreme level of consumption may be a far more damaging practice than is mere (legitimate and ethical) individual income generation per se, although the two are admittedly strongly correlated. The reasoning is that conspicuous consumption is highly visible. Consumption is far more visible to the poor than is the average high income earner's income statement and balance sheet. And residential property plays a pivotal role in this consumption in SA I believe. The poor frequently see large and stylish homes, often swimming pools, sometimes tennis courts and all of the accompanying expensive furniture and appliances. They see luxury motor cars, and they see lavish entertainment in these homes. Few probably appreciate that a significant portion of the middle to higher income

households are even under financial pressure, whilst still conspicuously consuming, because of the ease with which credit is available. Indeed, in recent years in certain Western countries it has been the banks (followed by a taxpayer bailout for the banks) that have picked up the tab for consumption practices that have far outstripped the means to pay.

It is questionable as to whether middle-to-upper income people with far more discreet consumer spending practices (perhaps there are a few out there), and with high levels of saving and investment, would create the same discontent amongst the poor, because their wealth would not be highly visible to the poor. It would be hidden away in income generating investments.

In addition, a middle to upper income class that saved far more heavily in SA would provide the means (savings) for significantly higher levels of desperately needed gross domestic fixed investment in the country, and the level of fixed investment is an important determinant of a country's longer term economic growth and job creation potential.

And then, of course, there's our ailing environment that is also crying out for more responsible (and conservative) consumption practices.

SHIFT IN FISCAL FOCUS TOWARDS GREATER RELIANCE ON USER CHARGES AND CONSUMPTION-RELATED TAXES MAY THEREFORE BE A PARTIAL ANSWER TO CONSPICUOUS CONSUMPTION,....

So, where should government's taxation and tariff focus lie in future? Given what has been said above, a key focus should arguably be to curb harmful consumption practices. This can be partly achieved by focusing more on consumption-related taxes and user charges which, like income-based taxes, can also be structured in progressive ways so as to impact less on the poor.

Far higher energy costs, brought about in the case of electricity tariffs, are already on their way, and the fuel levy is an option in the case of petrol/diesel. I would also expect water and other housing-related tariffs to be significantly higher in future, as utilities try to generate revenue to fund investment in ageing infrastructure. From an environmental point of view, more conservative energy or water usage brought about by higher charges/taxes can't really be faulted too much in this day and age (although many of SA's charges are admittedly done more for revenue generation purposes as opposed to trying to alter consumption behaviour), and not to mention the need for more funding for (hopefully more green in future) energy and transport infrastructure. The next measures look set to be a broadening of South Africa's toll road system, and there are many other options to place taxes or charges on a variety of consumption, either for environmental purposes, or merely revenue generating purposes, both motives which can have the consequence of reducing certain forms of consumption where there exists a degree of price elasticity.

An increased focus on consumption-based tariffs, or taxes such as VAT, the fuel levy and others, and significantly higher reliance on user charges such as toll fees, is thus not out of place given the 3 big issues mentioned above, namely:

- ***the harm that conspicuous consumption can potentially do in fuelling social discontent,***
- ***the harm that many forms of consumption can do environmentally;***
- ***and the harm that a high level of consumption does to long term economic growth in crowding out much-needed infrastructure investment through a lack of savings.***

...BUT A GRADUALIST AND WELL-TELEGRAPHED APPROACH IS CRUCIAL, GIVEN THE TIME NEEDED BY HOUSEHOLDS AND OTHERS TO ADAPT,...

However, the policy makers should not underestimate the time that it takes a society to adapt to such large scale changes, especially (though not only) in the area of property. This has been witnessed in one or two relatively small changes. The highest profile adjustment of recent years involves the sharp hikes in Eskom tariffs, and has been accompanied by significant increases in municipal rates and other tariffs related to property. Ultimately, the far higher costs that look likely to accompany owning a home will serve to speed up the densification process, with an increasing number of people living in smaller and smaller-sized residential units with smaller sized stands in order to contain these costs. But costly homes can't be demolished and replaced at the drop of a hat, and a very significant portion of middle class suburbia's housing stock is too large and becoming too costly to run given all of these sharply rising costs.

Already, councils have long battled to keep pace with the gradual urban densification of the past few decades, which has been driven by increasing land scarcity and resultant rises in land values. Housing-related infrastructure is often

creaking under the pressure, and in certain new areas in our cities there is a lack of much needed open spaces, government schools, government hospitals and other important infrastructure and services. Should the rates and tariff increases serve to speed up the densification process, it could become even more chaotic than already often witnessed if all the role players are not prepared for it.

The residential property market is also having to adapt to significantly rising transport costs (congestion time costs as well as looming more widespread use of tolls). Densification is once again the name of the game here, as more people will try to be closer to their place of work, or will attempt to be situated on a good public transport corridor. Ah yes, public transport. Here, the Gautrain looks set to be a great catalyst for a “public transport mindset” amongst the middle and upper income groups. Such a mindset shift can be hugely positive from an environmental point of view, a time-wasting congestion point of view, and also from a conspicuous consumption point of view as less people come to rely on private motor vehicles in future. But how long will a comprehensive public transport system take? More than one decade I would guess.

So, the home has been an important part of the South African Middle Class lifestyle, and possibly a status symbol in many cases. Much of our consumption expenditure is home and private transport-related, and we are a heavily-consuming nation. Addressing our country's high levels of consumption, especially in the area of energy, water, and transport, therefore, would greatly affect the characteristics and location of the home, because a large portion of spacious and low density middle class homes were developed with low rates and tariffs, as well as with low private road transport costs in mind, not to mention cheap consumer goods, while former Black townships were developed in far flung locations necessitating low transport costs to places of work.

In future, a far greater portion of SA's wealthy is likely to be far less “conspicuous” in its spending habits, because they will be living in far smaller residential units and making greater use of public transport, and because I would expect a further shift in emphasis towards user charges and consumption-based taxes in years to come. This has certain positives already mentioned. But, while for many reasons it would seem the right thing to do to shift towards a greater reliance on user charges/parastatal tariffs and consumption-based taxes, important to bear in mind is that when the residential home is effectively a key target (either directly through rates and tariffs or indirectly via toll fees which change people's location considerations), the adaptation by both households as well as councils needs to be a very gradual and well-planned process if it is not going to be a very painful process.

Shifts in user charges, tariffs and taxation are thus not always the main problem per se. Sometimes such shifts possess positive aspects. Rather, the problem is the relatively short time frame over, and extreme manner in which, they are being implemented or escalated. The proposed Gauteng toll road system was a case in point. The main public outcry didn't come when the toll building commenced. The anger seemed to mount once people realized how much they were going to suddenly have to pay. This came as rather a shock, because it isn't easy to adjust one's commuting habits overnight. In addition, where tax money was previously used to fund what is set to become a user charge-funded service or facility, the expectation is for some form of relief elsewhere as the user charges come into play.

But more consumption-based taxes and user charges or not, many of us in SA's middle to upper income echelons would do well to voluntarily and pro-actively tone down on the conspicuous nature of our consumption/buying, and save at a far higher rate. It is in our own narrow financial interests as well as in the interests of the long term economic and social well-being of the country.

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