
# SA'S Dollar Wealth Levels Hardly Increase Over Seven Years, But Interesting Trends Within This

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## Key points

- According to the Wealth Report SA just released to the media, the number of South African Dollar millionaires increased by just 9.4% between 2007 and 2014. This is despite the JSE breaching substantial new highs over this period. Part of this relative underperformance can be attributed to the depreciation of the Rand/Dollar exchange rate over that period, but it is also probably a function of the relative underperformance of the South African economy itself and its inability to generate wealth.
- The underlying trends within these figures are also quite revealing. The number of White millionaires is still by far the biggest, but it has fallen as a share of the total number quite sharply, from 86% to 69% over the seven-year period and the number itself has decreased by 13%, an indication of increased immigration of skilled persons. In the long term, this is a serious constraint on economic growth as it impairs the ability of the economy to benefit from skills transfer.
- On the other hand, the number of Indians and Coloureds increased by 172%, reflecting the benefits of vastly improved education within a group that is not being discriminated against to the same extent as the Whites by affirmative action and employment equity.
- In between, the number of Black African millionaires also rose sharply, by 113%, but as a proportion of the total it was still very low, at just over 10%.
- Interestingly, almost 36% of all wealth is situated in the financial services and real estate sectors, in contrast with just 13.6% in "basic materials", mainly mining and a miniscule 2.9% in manufacturing. This illustrates the extent to which the manufacturing sector has fallen massively behind in terms of enabling those involved in the sector to generate wealth.
- On the assumption that the mean wealth of each of these Dollar millionaires is approximately R20m, the figures suggest that the total wealth of such individuals is close to R10 trillion. This implies that a wealth tax of 0.1% theoretically could generate R10bn or approximately 1% of tax revenue for the government should it ever decide to introduce wealth taxes. Looking at it differently, a 3.5% wealth tax could generate as much revenue as all personal income taxes. In the context of the distortions in wealth creation created by loose global monetary policy and the systems of corporate governance, it is likely that governments will increasingly look to wealth as an avenue for raising taxes.

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## Relatively Small 9.4% Increase In Wealth Over Seven Years

The latest 2015 Wealth Report on South Africa, which measures the number of Dollar millionaires, shows there was a relatively small increase in overall personal wealth in South Africa over the seven-year period 2007 to 2014. The number of Dollar millionaires increased by just 9.4% over this period, from 42,800 to 46,800. Bearing in mind that the level of the JSE All Share index is approximately three times what it was in 2007, this is a surprisingly small increase in overall wealth. To some extent much of the Dollar benefit of rising share prices on the JSE was neutralised by the depreciation of the Rand/Dollar exchange rate from around R7 to the Dollar in 2007, to R10.50 in 2014. However, even taking this into account, the increase is rather disappointing. It illustrates the effects of relative economic underperformance by South Africa over this period. Such underperformance has constrained the ability of businessmen to generate appropriate wealth within the country.

## Decline In White Millionaires Reflective Of Emigration

It is interesting to reflect on the divergent trends of wealth creation amongst different sectors of the South African population. Not surprisingly, given the dominance of the business sector by the White community in the wake of apartheid and the suppression of entrepreneurship within previously disadvantaged communities, Whites still accounted in 2014 for 68% of the total number of Dollar millionaires. However, what is significant is that the number of White Dollar millionaires decreased from 36,900 in 2007, to 32,100 in 2014, a decrease of 13%. It is this that also contributed presumably to the relatively benign increase in the number of Dollar millionaires. However, in terms of the long-term economic impact, this is probably a more seriously negative development. To the extent that the White population was the most skilled, the decrease in the number of White Dollar millionaires suggests that there has been significant emigration of such businessmen. In the long term, this stands to deprive the economy of the ability to transfer skills to the lesser skilled majority African population and this in turn could inhibit longer-term economic growth possibilities. Cynics would argue that policies of affirmative action in employment equity have reduced the ability of Whites to build up wealth. However, whilst this might be true at the lower skill end of the White population, we do not believe it has been a major inhibitor in those sections of the White community who would vie to become Dollar millionaires.

## Increase In Wealth Highest Amongst Indians And Coloureds

In contrast with the decline in the number of White millionaires, the section of the population that has seen the biggest improvement in personal wealth has been that section classified as "Indian, Asian and Coloureds ". Unlike the 13% decline in the number of White Dollar millionaires, the number of Indian and Coloured Dollar millionaires increased by no less than 172%, from 3600 in 2007, to 9800 in 2014. In other words, the share of Dollar millionaires within this group increased massively from 8% of the total, to 21% over that seven-year period. Bearing in mind that Indians and Coloureds together account for just 11% of South Africa's total population, one can see that the wealth enjoyed by these groups amounts to double their representation within the overall population. (In the case of Whites, the 68% proportion of all millionaires is still eight times the share of Whites within the overall population, but this is down on the 10 times share held in 2007.) Especially within the Indian community, there can be no doubt that improved education without the constraints of affirmative action and employment equity facilitated a huge increase in opportunities to create wealth. This pattern also coincides with the finding that the Muslim population constituted the fastest-growing millionaire group, witnessing a 190% increase in the number of Dollar millionaires. This was followed closely by the increase in the number of Hindu Dollar millionaires. Many will argue that the improved educational profile within the Indian population has gone a long way towards substituting for the loss of skills within the White population.

## Big Increase In African Dollar Millionaires, But Could Have Been Greater

The number of Black African Dollar millionaires also increased substantially, by 113%, from 2300 in 2007, to 4900 in 2014. As a proportion of the total number of Dollar millionaires, this represented an increase to just over 10% of the millionaire population in 2014 compared with just 6% in 2007. Nonetheless, given the fact that Black Africans account for 80% of South Africa's total population, the proportion of Dollar millionaires is still relatively small. We submit that the relative failure of Black Africans to move up the wealth stakes over the past seven years has to do with the relative failure of a significant proportion of the country's population to improve its educational profile and its ability to perceive the opportunities available to create wealth. In the past few weeks there has also been an animated discussion about the proportion of shares on the JSE held by Blacks.

President Zuma suggested it was just 3% whereas the JSE contends that it is much higher, at around 25%. Based on the figures released, the reality is probably around halfway between the two extremes.

**Much Of The Wealth Resides In The Financial And Real Estate Sectors And Not In Mining And Manufacturing**

It is interesting to note the breakdown of wealth by economic sector. By far the most dominant sectors in which wealth has been created are financial services (19.5%) and real estate (16.2%). This is not altogether surprising given the growth of the financial services sector over the past few decades to become the largest single sector in many countries' economy. It is interesting to note that these are followed in third place by the 13.6% share of total wealth held by persons involved in basic materials, much of it in the mining sector. This is followed by 12.3% in diversified industry, 7.8% in retail, 7.1% in technology and telecommunications, 3.9% in healthcare and 3.2% in transport and logistics. Amazingly, only 2.9% of the Dollar millionaires in South Africa are drawn from the manufacturing sector, third last ahead of 2.6% for media and 1.9% for the hospitality sector. These figures illustrate the manner in which mining and manufacturing have declined as sources of wealth creation. It is an indication of the manner in which these sectors have been struggling to make profit over the past seven years in relation to many of the other sectors, especially in services. Unfortunately, it also feeds into showing how difficult it has become to generate jobs in more labour-intensive activities that can absorb the majority of unskilled workers in the country.

**Likelihood Of Increased Emphasis On Wealth Taxes In The Future**

Over the past year we have frequently alluded to the economic distortions generated by loose global monetary policy and the system of corporate governance inherent in capitalist societies. Loose monetary policy has tended to boost financial asset prices out of proportion to real economic activity, whilst corporate governance procedures have tended to enhance remuneration of executive management relative to the remainder of the employees within organisations, both in the public and private sectors. As a result, inequality has accelerated at a faster pace than at any stage in our lifetime. This has thrown up the possibility that governments might increasingly look towards sourcing revenue from wealth taxes rather than income taxes. A seminal book in this regard was released last year by Thomas Piketty in France, entitled "Capital in the 21st-Century". A rough calculation based on these latest figures, using the assumption of an average wealth of R20m for each of the above-mentioned Dollar millionaires (with a lower end at R11m and an upper end of a few billion Dollars), the total wealth of South African Dollar millionaires would amount to approximately R10 trillion. This is not far off our original calculation last year of R12 trillion based on the R8 trillion value of shares on the JSE and R4 trillion in real estate. In reality the value is probably still higher than this, because of unlisted companies and other forms of wealth, such as hard assets including artwork, game animals and the like. Be that as it may, it throws up the possibility that a 0.1% tax on wealth could theoretically generate between R10bn and R15bn in tax revenue, or between 1% and 1.5% of total tax revenue. A 1% wealth taxes would therefore generate between 10% and 15% of total tax revenue. Alternatively, a 3% to 3.5% wealth tax would raise as much revenue as is currently raised by personal tax and a 2.5% wealth tax would raise as much as is being raised through VAT. There are clearly many administrative issues involved in contemplating such a wealth tax, but one senses that in the context of massive fiscal constraints, there are likely to be ever more moves both in South Africa and abroad to look at sourcing additional tax from wealth rather than income. The big threat in this regard is that in the event that wealth taxes prove lucrative for governments' tax collection ambitions, rather than substituting wealth taxes for income taxes, it might become seductive for governments to see wealth taxes as yet an additional form of tax.

PLEASE NOTE: Econometrix does not have access to the final report. As a result, the above analysis is based on media releases.

**Dollar millionaires in South Africa**

| | 2007 | 2014 | | 2007 | 2014 |
|---|---|---|---|---|---|
| | Number | | | % of Total | |
| Total | 42 800 | 46 800 | | 100 | 100 |
| Whites | 36 900 | 32 100 | | 86.2 | 68.6 |
| Indian, Asian and Coloureds | 3 600 | 9 800 | | 8.4 | 20.9 |
| Black Africans | 2 300 | 4 900 | | 5.4 | 10.5 |

Source: South Africa 2015 Wealth Report by New World Wealth

## Dollar millionaires in South Africa by Sector - 2014

| | % of Total |
|---|---|
| Financial Services | 19.5 |
| Real Estate | 16.2 |
| Basic Materials (mining) | 13.6 |
| Diversified Industry | 12.3 |
| Retail | 7.8 |
| Technology & Telecommunications | 7.1 |
| Healthcare | 3.9 |
| Transport & Logistics | 3.2 |
| Manufacturing | 2.9 |
| Media | 2.6 |
| Hospitality | 1.9 |

Source: South Africa 2015 Wealth Report by New World Wealth

## Educational attainment of the employed by population group, Q4 2014

| | Less than Matric | Matric | Tertiary | Other |
|---|---|---|---|---|
| Black/African | 53.5 | 28.9 | 16.4 | 1.2 |
| Coloured | 50.1 | 35.3 | 13.7 | 0.9 |
| Indian/Asian | 20.0 | 45.8 | 34.1 | 0.0 |
| White | 13.1 | 40.6 | 45.4 | 0.8 |

Source: Quarterly Labour Force Survey, Statistics South Africa