



MEMORANDUM ON THE COST OF CRIME IN SOUTH AFRICA

1. INTRODUCTION

One of the biggest challenges facing South Africa today is that of winning the war against crime. This devastating war remains a costly one which unfortunately seems likely to continue for years to come. Safety and security costs the country billions of rands each year. These costs are paid for by every taxpayer in the country. Unfortunately history has shown that this financial burden on taxpayers is not enough. Crime remains rampant and out of control, despite the billions of rands spent by Government. At this point in time, crime cannot effectively be controlled and prevented by the South African Police Service.

This leaves the individuals and businesses in the precarious position of having to pay taxes, but on top of that having to pay for private protection from their own pockets in order to ensure that their families and businesses are protected. This alone places a heavy economic burden on many workers in South Africa. This is however not where the economic effects of crime stop. The impact of crime on the economy of South Africa is of great concern. Not only do businesses suffer monetary losses due to crime but often families are ripped apart by violent crime when the principal earner of a household, for example, is brutally murdered or left with permanent disability after an assault. The social and psychological impacts of this are hard to quantify, but are nonetheless very real. Suffice it to say that psychological scars left on the family members of victims of violent crime and the greater social impact of the wave of violent crime are severe.

A number of trustworthy studies and statistics are available which clearly indicates that the cost of crime in South Africa is high and the effects thereof on the socioeconomic rights and interests of workers are severe. In this short memorandum a number of statistics are presented which indicates the cost of crime in general and for workers and the country as a whole.

2. COSTS OF MAINTAINING THE CRIMINAL JUSTICE SYSTEM

2.1 Crime trends and anti-crime expenditure

Funds allocated for the maintenance of the criminal justice system forms an important and significant part of the national budget. Altbeker¹ describes criminal justice in South Africa as being almost exclusively the preserve of the national government and resources for its provision are deployed through three government departments, namely Safety and Security, Justice and Constitutional Development and Correctional Services.

Billions of rands are spent annually on the operation of the criminal justice system. The 2010 national budget allows for R 85,6 billion expenditure on public order and safety². The National Treasury has allocated R 52,5 billion from the aforesaid amount to the SAPS for 2010³. Table A casts light on the expenditure of government since the transition to democracy and also provides valuable insight into the occurrence of serious crime during the same period.

Year	Total number of serious crimes	Rate per 100 000 of the population	State expenditure on protection services^a (Rbn)	Expenditure on the SAPS as a proportion of total expenditure
1994/95	2 022 899	5 213.7	N/A	N/A
1995/96	2 065 514	5 217.7	13.8	71.0%
1996/97	2 033 010	5 010.7	16.6	69.9%
1997/98	2 094 259	5 085.8	18.5	69.2%
1998/99	2 211 765	5 265.8	21	66.2%
1999/00	2 364 870	5 491.9	22	66.4%
2000/01	2 505 675	5 735.4	23.6	66.1%
2001/02	2 529 000	5 643.7	27.6	64.1%
2002/03 ^b	2 631 524	5 789.8	33.9	62.8%
2003/04	2 554 964	5 508.0	37.1	64.2%
2004/05	2 385 773	5 119.7	41.6	64.4%
2005/06	2 168 951	4 624.6	47.5	64.8%
2006/07	2 125 227	4 482.4	47.8	68.1%

¹ Altbeker, Anthony (2005), *Paying for Crime: South Africa's spending on criminal justice*

² PriceWaterhouseCoopers, 2010 Budget Summary

³ National Treasury, Estimates of National Expenditure 2010, Police Budget Summary

2007/08	2 036 151	4 250.8	54.3	67.0%
Change: Initial period 2007/08	0.7%	-18.5%	293.5%	-5.6%
a Includes expenditure on justice, correctional services, and police. Excludes expenditure on defence and the Independent Complaints Directorate.				
b Figures from this financial year onwards are taken from the National Treasury. The information for the preceding financial years comes from the Institute for Security Studies. Figures from the two sources may, therefore, not be strictly comparable.				
Secondary source: SAIRR, South Africa Survey 2008/09				
Primary sources: National Treasury, <i>Medium Term Budget Policy Statement 2007</i> , 30 October 2007; p62; National Treasury, <i>Budget Review 2008</i> , 20 February 2008, p119; SAPS, www.saps.org.za, 30 June 2008; Institute for Security Studies (ISS), <i>Paying for crime: South African spending on criminal justice</i> , 2005, p8				

Table A indicates that the number of violent crimes has increased by 0,7% for the period in question while the expenditure on official protection services has increased by a staggering 293,5% for the same period. It is clear that the anti-crime expenditure of the country is high and is steadily increasing, while the number of serious crimes for the period in question has not diminished. The average worker (and other taxpayers) is heavily burdened by tax, which is also used by government to fund the criminal justice system. Despite this, serious crime has increased from 1994 to 2007.

3. THE COST OF CRIME

In a recent UN study⁴ on the abovementioned subject, the following is stated:

Non-conflict armed violence produces direct and indirect economic effects that can exceed the costs of armed conflict. The economic costs of [lethal] non-conflict armed violence in just 90 countries—measured in terms of lost productivity is USD 95 billion and may reach as high as USD 163.3 billion, or 0.14 per cent of the annual global gross domestic product (GDP) in 2004.

To put this in perspective, South Africa's annual GDP is about 0,4% of global GDP. Also, parts of these staggering costs are incurred in South Africa as well.

⁴ UN, 2008. *The global burden of armed violence*. Geneva: Geneva Declaration Secretariat. p. 89

3.1 Businesses

Businesses form an integral part of the South African economy. They are important sources of economic growth and employment. Business in general in South Africa experiences crime as extremely negative. During 2007/ 2008 the South African Presidency commissioned a study on the impact of crime on small businesses in South Africa. A number of the findings in this study are relevant for the purposes of this memorandum.

The study concludes *inter alia* that crime has a devastating effect on the viability and profitability of many small businesses. It furthermore highlights the direct and indirect cost of crime that small businesses suffer. The following is stated in this regard in the study:

The direct costs are made up of the value of money or goods stolen and/or the cost of damage to property and goods. Indirect costs include the cost of the disruption to business/lost work hours owing to staff time off work, loss of necessary equipment or temporary closure of the business, medical expenses, loss of staff, and increased insurance premiums. Businesses also incur security costs, which can comprise a significant proportion of turnover for small firms. They must also contend with the opportunity costs of crime – which may see businesses limiting growth or staff numbers, or shortening operating hours, to try to reduce their risk of crime.

and

The study found clear evidence that the impact of crime on small businesses goes beyond monetary costs. Perceptions of high levels of violent crime, together with businesses' actual experience of serious crimes such as robbery and burglary, create considerable opportunity costs for individual enterprises and the broader economy. Because of crime, many businesses limit their operations, and are reluctant to expand. Statistical analysis of the survey data shows that businesses that have been directly affected by crime are less likely to increase their employment.

In a study quoted in a Center for International Development (Harvard) working paper⁵ it is noted that while small, household-based enterprises (HBEs) in Mamelodi (near Pretoria) and in Madina (near Accra in Ghana) are virtually identical with regard to most factors, these businesses had a much greater chance of flourishing in Madina, simply because of much lower crime rates than in South Africa. It is stated that:

The comparison [of Mamelodi] with the situation in Ghana regarding fear of crime could not be more striking. Many of the HBEs experienced their greatest business after dark when ... the streets are full of people. It is also not uncommon for some HBE operators to have to store their goods outside; for example, a woman who was selling firewood and charcoal had to store her goods on the street but had never experienced any problem with theft at night...

The fact that, in the absence of high crime rates, goods may be safely stored outside at night effectively lowers the level of investment needed in order to operate a small business and therefore lowers one of the barriers to entry that aspiring entrepreneurs face.

Table B: World Bank data on costs and losses of businesses in South Africa		
	South Africa (2007)	Unweighted world average (122 territories)
Firms Paying for Security	76.38%	57.55%
Losses Due to Theft, Robbery, Vandalism, and Arson Against the Firm (% of Sales)	1.01%	1.05%
If there were losses, Losses Due to Theft, Robbery, Vandalism, and Arson Against the Firm (% of Sales)	2.39%	4.77%
Security Costs (% of Sales)	1.58%	1.47%
Security Costs if the establishment pays for security (% of Sales)	2.07%	2.86%
Products Shipped to Supply Domestic Markets Lost Due to Theft (%)	0.83%	0.77%

⁵ Stone, Christopher, (2006) *Crime, Justice and Growth in South Africa: Towards a plausible contribution from criminal justice to economic growth.*

% of Firms Identifying Crime, Theft and Disorder as Major Constraints	38.04%	25.74%
<i>Primary source:</i> World Bank, Enterprise Surveys, http://www.enterprisesurveys.org/ExploreTopics/?topicid=4 , 26 April 2010		

Table B provides insight into the costs that businesses in South Africa have to incur to ensure security as well as the losses that are suffered as a result of crime. Unfortunately these costs and losses are often discounted against the ordinary worker who may face retrenchment or lower salary increases as an indirect effect of crime.

3.2 Growth and investment

It is generally accepted that the high levels of crime impedes economic growth and investment in South Africa. Demombynes and Özler⁶ are quoted by Stone in a Harvard Working Paper on Crime, Justice and Growth in South Africa⁷ as stating the following:

The threat of crime diverts resources to protection efforts, exacts health costs through increased stress, and generally creates an environment uncondusive to productive activity. Additionally, the widespread emigration of South African professionals in recent years is attributable in part to their desire to escape a high crime environment. All of these effects are likely to discourage investment and stifle long-term growth in South Africa.

The South African government has itself acknowledged that the high level of crime in South Africa, particularly violent crime, is an impediment to growth.⁸ Small Medium and Micro Enterprises (SMMEs) are identified as essential to the government's growth strategy⁹. The DTI's report on the investment climate in South Africa¹⁰ mentions the World Bank's most recent Investment Climate Survey¹¹, which found that 30 percent of enterprises in South Africa rated

⁶ Demombynes, Gabriel and Berk Özler (2002), "Crime and Local Inequality in South Africa," World Bank Policy Research Working Paper 2925.

⁷ South African Police Service (2003), *2002/2003 Annual Report of the National Commissioner*

⁸ Stone, Christopher, (2006) *Crime, Justice and Growth in South Africa: Towards a plausible contribution from criminal justice to economic growth.*

⁹ Accelerated and Shared Growth Initiative – South Africa (AsgiSA): A summary. Accessed on <http://www.info.gov.za/asgisa/asgisa.htm>

¹⁰ "South Africa: An assessment of the Investment Climate" is available on the internet at <http://www.thedti.gov.za> or <http://www.gov.za>.

¹¹ World Bank (2005) South Africa Investment Climate Survey

crime as a major or very severe constraint on investment, putting crime among the four most frequently mentioned constraints to growth.

One of the basic foundations for the success of any economy (and on the micro scale, of any business) is certainty of property rights. In its most basic form, it can be articulated as: “Being sure that what belongs to me today, will still belong to me in future, until I use my own free will to transfer this property to another person.”

Certainty of property rights is strongly correlated with economic prosperity. Crime disrupts this picture and creates uncertainty, which creates an unwillingness to invest. Lockean property rights originate from every person’s ownership of his/her own body. It therefore follows that even violent crime that doesn’t have an “economic” component (e.g. even if nothing is stolen) is still an infringement of property rights. Violent assault on the person of another could furthermore deprive that person of the capability of or motivation for being economically active, adding to the detrimental effect that crime has on economic prosperity.

4. PRIVATE SECURITY EXPENDITURE

4.1 Resources used for obtaining private security

The SAIRR’s South Africa Survey 2008/2009 provides important statistics regarding robbery with aggravating circumstances and residential burglaries.

<i>Province</i>	<i>1994/95</i>		<i>2008/09</i>		<i>Change 1994/95–2008/09</i>	
	<i>Actual numbers</i>	<i>Rate per 100 000</i>	<i>Actual numbers</i>	<i>Rate per 100 000</i>	<i>Actual numbers</i>	<i>Rate per 100 000</i>
Eastern Cape	6 343	105.9	9 814	149.2	54.7%	40.9%
Free State	2 951	116.1	5 164	179.4	75.0%	54.5%
Gauteng	38 410	545.2	50 886	487.1	32.5%	-10.7%
KwaZulu-Natal	17 407	215.2	25 856	255.9	48.5%	18.9%
Limpopo	3 957	86.0	2 815	53.4	-28.9%	-37.9%
Mpumalanga	3 788	142.3	6 952	193.6	83.5%	36.1%
North West	4 738	146.6	5 957	173.9	25.7%	18.6%
Northern Cape	717	87.3	1 219	108.3	70.0%	24.1%
Western Cape	6 474	169.4	12 729	241.9	96.6%	42.8%

South Africa	84 785	218.5	121 392	249.3	43.2%	14.1%
<i>Secondary Source:</i> SAIRR, South Africa Survey 2008/09						
<i>Primary source:</i> SAPS, www.saps.co.za, 22 September 2009						

	1994/95		2008/09		Change 1994/95–2008/09	
Province	Actual numbers	Rate per 100 000	Actual numbers	Rate per 100 000	Actual numbers	Rate per 100 000
Eastern Cape	25 259	421.6	28 572	434.3	13.1%	3.0%
Free State	15 678	616.8	16 202	563.0	3.3%	-8.7%
Gauteng	76 899	1 091.5	68 090	651.8	-11.5%	-40.3%
KwaZulu-Natal	38 117	471.3	37 650	372.6	-1.2%	-20.9%
Limpopo	9 127	198.3	12 398	235.0	35.8%	18.5%
Mpumalanga	13 959	524.4	19 839	552.6	42.1%	5.4%
North West	12 677	392.2	15 529	453.4	22.5%	15.6%
Northern Cape	4 926	600.0	5 416	481.0	9.9%	-19.8%
Western Cape	34 713	908.5	42 920	815.7	23.6%	-10.2%
South Africa	231 355	596.2	246 616	506.5	6.6%	-15.0%
<i>Secondary Source:</i> SAIRR, South Africa Survey 2008/09						
<i>Primary source:</i> SAPS, www.saps.co.za, 22 September 2009						

Considering these statistics it is not surprising that South African citizens annually spend millions on security to ensure their safety as far as possible. Resources are allocated towards buying and installing alarm systems, electric fences, barbed wire, steel gates, armed response, indoor and outdoor beams etc. Households that are forced to go to these extremes save less. The costs of crime for millions of households places is a financial burden, which results in resources that could and should have been used otherwise are spent on security as a necessity to survive. In other words, their hard-earned funds are utilized sub-optimally, because it is diverted from investment. Taken for South Africa as a whole, this effect causes the country's production possibilities frontier to recede and impedes economic growth.

4.2 Tax implications and the case for tax rebates

One of the core functions and responsibilities of any form of state throughout the ages is the physical protection, within reason, of its citizens, whether it be protection from violence from external or internal forces. The implication of citizens having to pay for private security because the South African Police Service is unable to ensure their safety to a reasonable extent (as evidenced by the high crime rates in South Africa), is that citizens pay from their own pockets for the protection that should be provided by the state. An important analogy, applicable to taxpayers who are natural persons, is the deduction in respect of medical and dental expenses allowed for in terms of section 18 of the Income Tax Act No. 58 of 1962 (“the Act”).

Notably the contributions that qualify for deduction in terms of the Act are limited to contributions made by a taxpayer (who is a natural person) in respect of a year of assessment and his/her spouse or any dependant, to any medical scheme registered under the provisions of the Medical Schemes Act, 1998 as well as amounts paid by the taxpayer to any duly registered medical practitioner, dentist, optometrist, homeopath, naturopath, osteopath, herbalist, physiotherapist, chiropractor or orthopedist for professional services rendered or medicines supplied to the taxpayer and his/her spouse or his/her children, if the taxpayer was a member of a scheme or fund contemplated in the Act. Other amounts paid by taxpayers, including payments to nursing homes and pharmacists for medicines supplies on prescription also constitute allowable deductions.

The aforestated analogy would be incomplete without reference to the fact that excluded in the definition of “taxable benefit” in accordance with the provisions of the Seventh Schedule to the Act (dealing with benefits or advantages derived by reason of employment or the holding of any office), is “any benefit provided by any benefit fund in respect of medical, dental and similar services, hospital services, nursing services and medicines ...”

However, paragraph 2 of the Seventh Schedule states *inter alia* that a taxable benefit shall be deemed to have been granted by an employer to an employee in respect of the employee’s employment with the employer, if, as a benefit or advantage of or by virtue of such employment or as a reward for services rendered or to be rendered by the employee to the employer:

“... the employer has, directly or indirectly, incurred any amount (other than a contribution or payment contemplated in item (i)) in respect of any medical, dental and similar services, hospital services, nursing services or medicines provided to the employee or his or her spouse, child, relative or dependant.”

In terms of paragraph 8 of the Ninth Schedule to the Act (under the heading “Public Benefit Activities”) medical research is listed as a recognized public benefit activity. An overview of SARS’ practice regarding the deductibility of medical expenditure (“the Tax Guide on the Deductibility of Medical Expenditure”) is available on SARS’ website (www.sars.gov.za).

It is of importance to realize that the allowable deductions in respect of medical and dental expenses are provided notwithstanding the provisions contained in section 23 of the Act, which prohibit certain expenditure, including private or domestic expenditure. In addition, it is important to note that, in accordance with section 18(1) of the Act, SARS has no discretion whether to allow the deduction or not. Where the requirements of the section are met, the deduction has to be given.

In terms of the Constitution of the Republic of South Africa, 1996 (Chapter 2, Bill of Rights, section 27) everyone has the right to have access to health care services, including reproductive health care, and the State must take reasonable legislative and other measures within its available resources to achieve the progressive realization of each of these rights and no one may be refused emergency medical treatment. It can thus safely be deduced that the aforementioned advantages befalling taxpayers who are natural persons relate to the aforementioned entrenched rights created in terms of the Constitution.

In section 12 of the Bill of Rights contained in the Constitution of the Republic of South Africa, 1996 it is provided *inter alia* as follows:

“12 Freedom of security of the person:

(1) Everyone has the right to freedom and security of the person, which includes the right-

- (a) ...
- (b) ...
- (c) to be free from all forms of violence from either public or private sources;
- (d) not to be tortured in any way; and
- (e) not to be treated or punished in a cruel, inhuman or degrading way.”

In *Ferreira v Levin; Vryenhoek v Powell* 1996 4 BCLR 441 (CC) (1996 (2) SA 621 (CC)) Ackerman J and Sachs J interpreted the Constitution’s freedom and security protections (as found in section 11(1)) as encapsulating a residual liberty protection. In terms of the majority decision it was held that freedom and securities related essentially to physical integrity and cautioned that the Court should tread wearily and not easily stray from the primary sense of the meaning of freedom and security.

It follows naturally that the State cannot reasonably be expected to provide its citizens (and including taxpayers who are natural persons) with access to healthcare services. In the same vein it is suggested that the State’s is unable to provide its citizens (and including taxpayers who are natural persons) with adequate security including freedom from all forms of violence.

Accordingly, it is suggested that the time is ripe for allowance of deductions from the income of any taxpayer who is a natural person for any contributions made by that taxpayer(in respect of the relevant year of assessment) in respect of the taxpayer, his/her spouse, and any dependant to any registered provider of security services within the Republic of South Africa including but not limited to registered private security firms, armed protection, neighbourhood watch protection and the like.

Although income tax deductions in respect of “private security arrangements” in circumstances where the State and/or government is unable to sufficiently provide for the security of its citizens, is foreign concept in the developed world – it is suggested that the application thereof should be investigated and implemented in the Republic of South Africa without further delay.

A further important consideration when dealing with the issue of tax is the financial benefit that accrues to the state on account of value added tax (VAT). When one considers that VAT revenue is raised when security products such as alarm systems, steel gates and barbed wire are bought, it appears that crime pays – at least for the state. Similarly, VAT is charged for security services such as armed response and again the state receives VAT revenue. When considering the VAT that is charged every time an individual or business has to replace a stolen item or pay for reparations as a result of crime the financial benefit to the state increases even more.

While allowing for VAT rebates would be difficult, the possibility should still be investigated. Allowing for tax deductions on security-related materials and private security service costs could be implemented speedily and without much difficulty. Such a step would contribute to the protection of the socioeconomic interests of all South Africans, as it would make it easier for taxpayers to take steps for their own protection.

4.3 Migration and emigration

Migration within South Africa's borders as a result of crime is a reality. While verifiable quantitative data is hard to obtain or nonexistent, anecdotal evidence for this phenomenon abounds. Thousands of households migrate annually to neighbourhoods and provinces where they feel safe. Safety is a priority for many and as such decisions to migrate to safer areas despite the financial opportunity cost thereof are made on a daily basis. Again, these costs leave households having to spend money on relocation, financing new residences as well as having to incur other incidental costs in this regard.

The crime in South Africa has also been the reason for the emigration of tens, even hundreds of thousands of South Africans. The removal of economically active persons who often possess scarce skills is devastating to the South African economy.

4.4 Health

Mention has earlier been made about the impact of crime in general and violent crime in particular on the psychological wellbeing of ordinary South Africans. The psychological cost on account of fear of victimisation and the high levels of robberies and violent crime is tremendous. These psychological costs directly lead to higher health costs due to higher and continuous stress levels.

5. CONCLUSION

This memorandum provides a broad and brief analysis of the cost of crime in South Africa. A plethora of studies and statistics support the views expressed herein and the statistics provided.

If one focuses on the socioeconomic interests of workers, one finds that the worker has to carry a significant part of the cost of crime, albeit directly or indirectly. The worker is liable for taxes which are partly allocated for safety and security. Government is unable to ensure safety and security for all its citizens and as a result the worker often has to bear the heavy costs of providing private security. Migration within South Africa to safer neighbourhoods and provinces is a cost that the worker often has to face. The psychological impact of crime is a cost to the health of many South African workers.

Businesses suffer losses due to crime and have to incur costs to ensure safety and security. These costs are often indirectly discounted by lower salary increases or retrenchments. Crime impedes economic growth, which also impacts on the labour market. Lower investment (foreign as well as local) due to crime has a negative impact on the economy, which is often reflected in the lower availability and creation of jobs. Emigration of economically active persons with scarce skills as a result of crime has had a detrimental effect on the economy and continues to impede government's ability to deliver effective services to, amongst others, workers.
