Saving trends and behaviour in OECD countries

THE saving ratio is one of the key economic variables, but also is one of the most difficult to understand, both in the national context and in respect of international comparisons. Nationally, there is an inclination on the part of some savings institutions to see the saving ratio as something that is vitally important in determining how much money they can attract. Internationally, a high saving ratio is seen to be "a good thing" whereas a low saving ratio is seen to hinder economic growth. In practice, the saving ratio is a far more complicated variable.

Nationally, what matters to savings institutions is not net saving as measured by the saving ratio, but rather gross saving. It is perfectly feasible for a country to have a negative saving ratio, that is, where borrowing exceeds saving, yet for saving institutions to attract a record inflow of funds. What matters to financial intermediaries is the extent of financial intermediation, that is, both saving and borrowing, rather than the difference between the two figures.

'Comparisons difficult'

Internationally, comparisons of saving ratios are fraught with difficulty because of definitional problems. There is a general perception that Japan has an exceptionally high saving ratio and that this has played a major part in its economic growth. The USA and UK are seen as having low saving ratios which have hindered their economic performance. The crude figures tend to bear out these extremes but their implications for policy are an entirely different matter.

There have been few comprehensive international studies of saving ratios. The OECD has performed a valuable service in publishing a working paper which examines sectoral saving trends in the 1960s and 1970s and considers the links between them. The paper* looks in particular at the reasons lying behind the volatile behaviour of household saving in certain countries in recent years.

National saving and investment

National saving and investment rates differ considerably across OECD countries, with a striking persistence of large disparities between countries. A common feature, however, is that in almost all countries the shares of saving and investment in GNP have declined since the 1960s. For the OECD area as a whole, the average ratio of gross national savings to GNP fell by three percentage points between 1960-1970 and 1981-1987. The largest falls occurred in continental European countries and Australia, the smallest declines (or even rises) in the United Kingdom, Canada, Finland, Ireland, New Zealand, Portugal and Switzerland.

The fall in net saving and investment in relation to net national product has generally been more pronounced, reflecting a rise in the depreciation of fixed capital.

Saving and investment decisions reflect choices over a long period of time about consumption and production. Low saving rates, for example, which are a current matter of concern in some countries, are in part a reflection of individuals' preference for current consumption. If low saving rates mean that there is not sufficient national saving to finance a desired national investment then should this be a cause for concern, especially if other countries seem willing to cover any gap.

The conclusion is that although there is no necessary reason to believe that the small trend declines in national saving and investment rates indicate inadequate saving and investment, recent pressures on capacity may suggest the need for continuing high investment whilst various distortions, especially on the tax side, may be leading to sub-optimal allocation of resources.

'Fall in net saving'

The strong positive relationship between national saving and investment rates found by earlier researchers has been reduced substantially, with the influence of international financial liberalisation in the 1980s facilitating the large capital flows necessary to sustain gaps between saving and investment in many countries.

Reductions in government saving since the 1960s have been an important factor contributing to the decline in national saving and investment.

Private sector saving rates have exhibited greater stability over time than have the component household and business saving rates. Business saving is strongly related to profit elements; the sharp recovery in profits in the early 1980s boosted business saving and considerably increased self-financing of business investment.

Household saving

The report includes a useful annex on measurement issues relating to household saving; it is necessary to understand the conceptual difficulties involved before reading too much significance into the figures. Household saving is a residual item, being the difference between current disbursements and current receipts. The household sector includes unincorporated enterprises, mainly farms, small family businesses and owners of dwellings. The relative importance of unincorporated enterprises varies across countries, as do the ways they are treated in national accounts statistics.

These differences make international comparisons difficult. In particular, except in Japan, France, Italy and Finland, private non-profit institutions serving households are also included in the household sector. It is in fact very difficult to derive a "pure" household saving ratio. The net household saving ratios which are reported in national accounts can be viewed as the household saving ratios adjusted for unincorporated enterprises by assuming that gross saving of unincorporated businesses is exactly equal to the consumption of fixed capital so that their net saving is zero. An alternative way of dealing with the problem of unincorporated enterprises is to combine households and all enterprises into one "private sector".

Purchases of consumer durables are treated in national accounts as final consumer expenditure although there is justification for considering them also as purchase of capital goods. Household gross saving ratios would exclude purchase of consumer durables and would have the effect of raising saving ratios by between 20% and 60%. In general the increases are most marked in countries with low gross saving ratios.

Saving by employees in private pension funds is included in household saving, but this is not the case for government social security schemes. These different treatments make national account saving ratios difficult to interpret for comparison between countries because the relative importance of social security and private schemes varies across countries.

'Decrease in savings ratio'

Gross household saving ratios increased substantially in the 1970s and then decreased markedly during the 1980s in almost all OECD countries. The uncertain economic environment of the two oil price shocks and the inflation of the 1970s may have contributed to the rise in saving ratios, while the disinflation and sustained recovery of the 1980s seem to have contributed to their fall. The decline in saving ratios has been particularly pronounced in certain countries, often associated with financial market liberalisation.

There is a large body of theoretical and empirical work on the determinants of household saving behaviour. For individual households the main saving motives are to allocate consumption over time given a pattern of expected income flows, to allow for uncertainty about the future and the willingness to save for bequest. In the short to medium term, saving and dissaving also occur because of the planning of future acquisitions of consumer durables and housing.

Household saving thus depends

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Saving Ratios, 1980-87

Country	Total Saving Ratio		Household Saving Ratio	
	Net %	Gross %	Net %	Gross %
USA	3.9	16.3	6.0	9.6
Japan	20.2	31.1	13.3	15.9
Germany	10.7	21.8	8.9	—
France	—	19.6	—	10.9
UK	6.2	17.5	5.1	7.2
Italy	7.5	15.6	14.6	17.2
Canada	9.4	20.3	10.9	12.9
Austria	13.0	25.8	6.9	—
Belgium	6.5	15.2	11.5	—
Denmark	6.0	14.8	—	—
Finland	10.7	24.1	2.7	7.5
Greece	8.5	11.5	—	—
Iceland	6.9	18.3	—	—
Ireland	8.3	18.3	—	—
Netherlands	13.3	22.2	10.7	—
Norway	15.8	28.2	1.0	9.5
Portugal	15.8	23.4	—	—
Spain	9.6	20.3	—	—
Sweden	6.0	17.2	0.8	3.6
Switzerland	20.2	28.0	9.6	—
Australia	3.4	19.3	7.4	12.0
New Zealand	14.6	21.5	—	—

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on demographic factors, current and expected wealth and institutional or structural characteristics. Variations in some of these factors explain some of the difficulties in measuring saving ratios across countries or within a country over time.

With respect to demographic factors, a recent analysis of seven OECD countries shows that the share of the elderly population has reduced saving and could continue to reduce it substantially into the first quarter of the next century. The old age dependency ratio has increased in most countries in the 1980s. There is also evidence that individuals of a given age behave differently than earlier.

'Older people save more'

Younger people seem to have a lower propensity to save than older people.

The increase in the share of the elderly in the population has been accompanied by an improvement in their economic situation and this has also been advanced as an explanation of reduced aggregate saving.

How interest rates affect saving is an important issue as it bears on questions regarding public indebtedness and the effects of fiscal policy. Several studies have shown that saving does respond to higher interest rates.

Personal net worth and debt

Studies show the importance of the net wealth position in affecting consumption/saving behaviour. In the life cycle approach, households have some target wealth position to support consumption, while in the permanent income approach, permanent consumption is defined as the amount that can be consumed that leaves net wealth unchanged. In either case, from the household's point of view, improvements in net worth give rise to a lower need to save. During the 1980s, personal savings ratios have fallen while the ratio of personal net wealth to personal disposable income has risen significantly in the United States, Japan, the United Kingdom and Italy.

Housing and equities generally account for much of the variation in household wealth. In Japan and the United Kingdom, changes in the value of the housing and land stock have dominated changes in net worth in the past 20-25 years and, in most cases, have been larger than the aggregate value of personal saving. Increases in the value of the housing stock have also been large in Canada, Australia, Sweden and Norway in recent years. In most of these countries the greater availability of credit through financial liberalisation, or general monetary ease in the case of Japan, has been an important factor explaining the rapid growth of mortgages and property prices.

Capital gains on housing often increases net worth substantially and hence stimulate consumption. In the UK there is evidence that the rapid growth of house prices in London has encouraged equity withdrawal as properties are bought and sold, with a substantial part of the sales proceeds being consumed and not reinvested. In several other countries, financial liberalisation and competition has also made it easier to use home equity as collateral for other loans. In addition, the tax system often favours investment and saving in the form of housing. This effect has become more important as other distortions have been removed and credit becomes more available.

Increases in personal net worth have been accompanied by a rapid build-up of gross personal debt. Borrowing for housing represents the largest liability of most households in most OECD countries. In some countries credit rationing of housing finance, which was previously extensive, has now largely disappeared. Furthermore, in many countries consumer loans based on the value of housing equity have become more significant.

Tax structures and their influence on household saving

A large number of tax instruments influence saving. Many countries provide favourable treatment of some form of financial saving, especially that related to retirement pensions.

Investment in owner-occupied housing receives a considerable amount of preferential tax treatment. This preferential treatment arises from several channels such as tax relief on mortgage interest payments and the exclusion of capital gains and non-taxation of implicit rental income. Among OECD countries only Canada, New Zealand and Turkey allow no tax deductions or credits for mortgage interest payments. While tax relief is limited in a number of countries, many provide for full deductibility of interest and in some countries this extends to secondary residences as well.

In terms of economic efficiency, tax deductibility of interest could be justified with respect to investment in housing if the accrued income on housing investment were taxed. However, capital gains and imported income, if taxed at all, are only lightly taxed in most countries. Tax wedges (differences in pre- and after-tax rates of return in percentage points) are large for countries which allow generous or complete deductibility of interest payments. In this case the tax wedge increases considerably with inflation. ■

'Build-up of personal debt'

**Saving Trends and Behaviour in OECD Countries,* OECD, Department of Economics and Statistics, Working Paper No. 67 by Andrew Dean, Martine Durand, John Fallon and Peter Hoeller, OECD, 1989.