United States Saving in a Global Context
Testimony of Barry Bosworth
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As requested, I would like to focus my comments on providing an international perspective on U.S. saving behavior. However, it is useful to begin with a brief macroeconomic summary of recent trends in the United States. The presentation of the data is rooted in an identity in which a nation's saving is equal to domestic investment plus net foreign investment (or what is called the current account balance in international discussions). This is of particular importance to understanding the large current account deficit of the United States on its transactions with the rest of the world. National saving can also be further divided into saving of the public and private sectors. Some countries, including the United States, go further and divide private saving into a corporate and household sector. However, the second distinction can be of questionable meaning in countries that have a large noncorporate business sector.

These concepts are shown in the summary of the U. S. saving and investment balance in table 1. After a long period of stability near 11 percent of income, the net national saving rate began to decline in the early 1980s and in 2005 it reached an astounding low of only one percent of national income. Some of this drop can be traced to the re-emergence in recent years of sustained negative saving in the public sector, but the continued decline in private saving and the negative household saving rate are particularly striking. Only the corporate retained earnings portion has held up in recent years as profits have soared since the 2001 recession.

I am not going to go into the reasons for the decline in household saving because they have been discussed at length by others and remain quite controversial. I do show in the first chart, however, the rise in the wealth-income ratio over the last two decades because it has attracted so much attention. I agree that large capital gains are part of the explanation for the reduced saving; but as shown in the chart, the correlation is not very close and saving showed no signs of recovery after the 2001 stock market crash.

On the other side of the accounts the United States continues to offer very good investment opportunities -- superior to those of most other industrial countries -- and the domestic investment rate has nearly recovered to the level of the 1995-2000 boom. The net investment rate shows some decline over the past 40 years because of a progressive shift toward shorter-lived capital with its faster rate of obsolescence, and hence higher capital consumption allowances (depreciation). However, this is offset by a larger flow of capital services per dollar of capital.

The combination of good investment opportunities and very little domestic saving with which to finance them has translated into an ever-growing reliance on the net inflow of resources from abroad. Net foreign lending (current account balance) reached -789 billion dollars in 2005, or a negative 7.2 percent of national income. This degree of reliance on foreign financing is unprecedented, but has been achieved with relatively few strains because foreigners perceive the United States as offering safe and attractive investment opportunities. The Federal Reserve has

also supported the process in recent years with a steady increase in U.S. interest rates. However, the strong demands for dollar-denominated assets have kept the value of the dollar at a high level and greatly weakened the ability of U.S. export firms to compete in global markets.

It is vital that Americans understand that this situation is a product of our own economic behavior – basically an extraordinarily high rate of consumption – and not that of other countries. We are in the midst of a domestic boom with very low rates of unemployment, and we could not possibly support our spending out of our own productive resources. We need the foreign resource inflows and foreigners perceive the expansion of our markets as the locomotive for global growth.

I have been in the process of collecting data from a variety of sources on rates of saving in other countries. Not all countries produce national income accounts with the degree of detail provided in those for the United States, and for many developing countries the data are often problematic. It is also easier to focus on rates of gross saving and investment, without correction for changed rates of depreciation; but it has little impact on any conclusions. Figures 2-5 provide a perspective on saving and investment trends in the other major industrial economies of the OECD over the period of 1960-2005. As shown in figure 2, the United States has always had a low rate of national saving compared to Europe and Japan. At the same time, a pattern of declining rates of saving is evident in all three regions. Japan's saving rate has fallen as much as that of the United States since the 1970s.

Surprisingly, the contrast among the industrial countries is actually on the investment side (figure 3). Rates of investment have fallen in both Japan and Europe in response to their markedly slower rates of economic growth; but as mentioned earlier, the investment rate has remained stable in the Untied States. As a result, differences among the industrial countries in rates of domestic investment have largely disappeared. Because rates of saving and investment have declined in parallel in Europe and Japan, they have seen very little change in their net external balance, in sharp contrast to the situation of the United States. Both Europe and Japan have much slower rates of employment and GDP growth than in the past, which contribute both to reduced rates of saving and investment. No such slowing of growth is evident for the United States. Our labor force continues to expand and we have seen a strong recovery of productivity growth over the past decade.

For the OECD countries, it is possible to distinguish public and private sector rates of saving (figures 4 and 5). The EU countries used to use strong public saving as a major source of capital financing to support their efforts to catch up to the United States in living standards. When they encountered economic problems in the 1980s, the public sector surpluses disappeared. Integration into the Euro Zone intensified pressures to reduce budget deficits in the late 1990s, but they have deteriorated again in recent years. Japan, of course, has gone through a dramatic cycle as public sector saving surged in the boom of the 1980s, but it has disappeared in the long drawn out crisis of the 1990s. The public sector saving deficit is comparable to that of the Untied States.

A focus on private saving rates yields a slightly different perspective. Except for a bulge of saving in the early 1970s in Japan, private rates of saving in Europe and Japan have declined only modestly, and they are notably higher than in the United States. The trends in private

saving have been particularly divergent since the mid 1980s. This is surprising in view of the significantly higher proportions of the population that are retired in most European countries and Japan. The United States has a comparatively young population with the surge in the aged population still almost 10 years in the future. It is also evident that Americans have long saved less than the citizens of other countries. However, the low rate of U.S. saving was not particularly damaging to economic growth. While saving less, they invested the capital very efficiently. In part, this was due to highly developed capital markets and a minimum of government interference in the allocation of saving.

We also have data on national saving, investment, and the external balance for a larger number of countries that includes most of the developing world. These data are shown in table 2 for the period of 1980-2005. Table 2a shows the distribution of current account imbalances (saving minus investment) across the major regions of the world, scaled by global GDP. The table highlights the extraordinary nature of the current situation in which the richest nation in the world is actually importing capital from all the other regions. Normally we would expect the rich to save a bit of their income and loan it to the poor. While the United States has a deficit, every other region has a surplus on its current account. With the rise in world oil prices, the surplus within the oil-producing countries of the Middle East is particularly large.

Table 2b highlights the extraordinarily large differences in saving rates across regions. Among the emerging regions, saving is notably low in Latin America and these countries have frequently attempted to borrow in the world capital market. The result has too often been financial crises. Asia, in contrast, is composed of a large number of high saving countries. It also appears that those high saving rates are concentrated in the private sector since the governments generally avoid large budget surpluses or deficits. Several explanations have bee put forth for this pattern of saving behavior. The sharp decline in birth rates has lowered the child dependency rate and encouraged adults to save for retirement since they can no longer simply rely on their children. Many of these countries do have underdeveloped public retirement systems. Second, high growth creates a virtuous circle in which rapid income growth makes it easy to save at the same time that one's standard of living is improving, and the high saving feeds back through capital accumulation to promote growth. In addition, some Asia countries have traditions of strong intergenerational linkages that may serve to promote dynastic saving and a longer-term perspective on wealth accumulation.

Table 2c shows that the cross-national variation in rates of saving and investment are highly correlated. While the situation is changing, most developing countries still find it difficult to obtain stable sources of external capital and they are often forced to rely on their own resources (saving). The situation may change in the future, but at present only one country, the United States, seems able and willing to operate with a large current account imbalance. Thus, the structure of table 2a, in which the United States has a huge external deficit and all other countries have small surpluses.

The conclusion that I would like to emphasize from this comparison is that it is the United States that is the outlier in terms of the net imbalance of saving and investment. In part, the external imbalance is good news because it is reflective of very good investment opportunities in the United States, but it is also reflective of an extraordinarily low rate of saving in both the public and private sector. Second, I do not believe the situation is a crisis. The

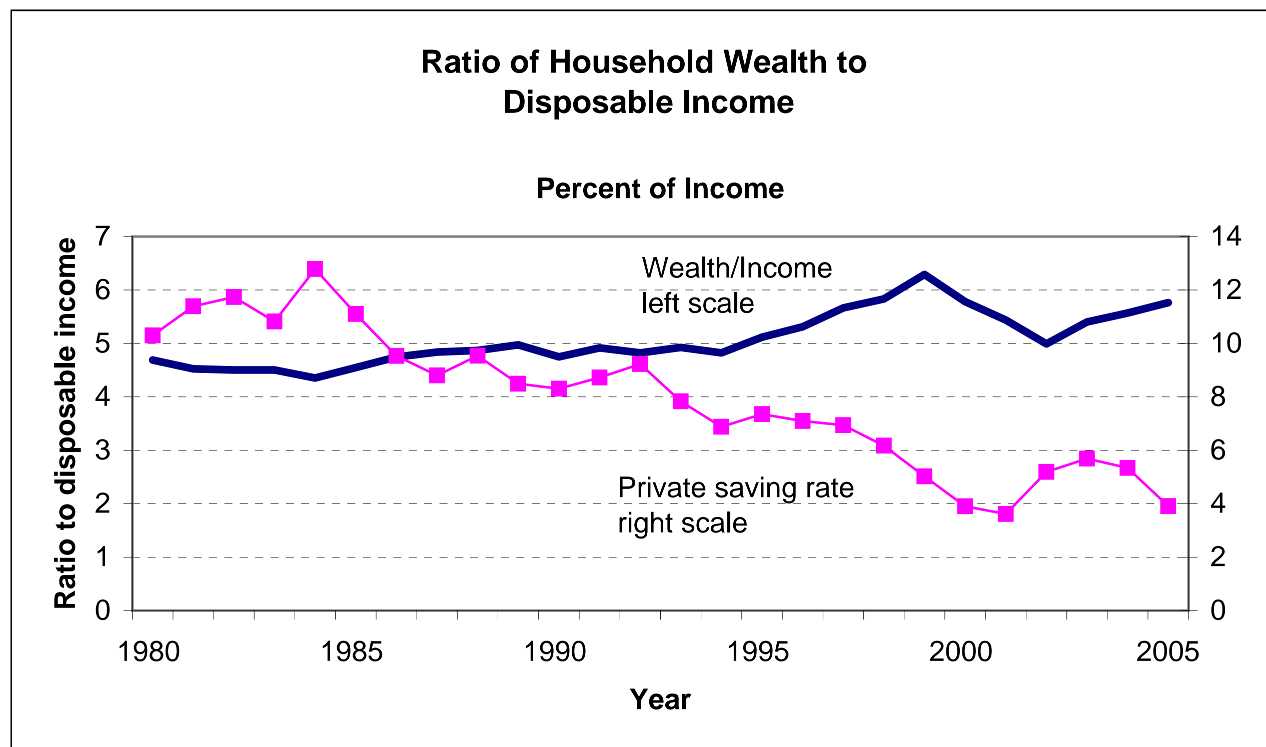
United States is an extraordinarily rich country which can afford to live off accumulated past wealth for a very long period. In addition, the lack of domestic saving is not particularly damaging to U.S. businesses that can obtain financing in a global market. However, the imbalance does contribute to an over-valued dollar and a situation in which firms cannot compete in the global market from a production base in the United States. In the long run the lack of export markets will prove to be very damaging to the job opportunities of American workers. Third, the situation is likely to worsen in future years as more baby-boomers move into retirement. From a demographic perspective, the current U.S. private saving should be at an all-time peak. The international comparisons suggest that demographics do have some influence on saving, but the effect appears to be small and easily overwhelmed by other factors.

Table 1. United States Net Saving and Investment by Sector, 1960-2005

Percent of national income

Sector	1960-79	1980-89	1990-94	1995-99	2000-04	2005
Saving	11.0	7.0	4.1	6.2	3.2	1.0
Private	11.0	10.5	8.2	6.5	4.7	3.9
Household	7.0	7.5	5.5	3.1	1.7	-0.3
Government	0.0	-3.4	-4.2	-0.3	-1.6	-2.9
Domestic Investment	11.3	9.5	6.9	8.9	7.9	8.5
Private	9.2	7.9	5.5	7.8	6.5	7.1
Government	2.1	1.6	1.4	1.1	1.4	1.4
Net foreign Investment	0.5	-1.7	-1.0	-2.0	-5.1	-7.2
Statistical discrepancy	0.7	0.7	1.9	0.7	-0.3	0.4
Capital consumption	11.6	13.8	13.6	13.4	13.9	14.4

Source: Bureau of Economic Analysis, Department of Commerce, National Income and Product Accounts
Net saving excludes capital consumption allowances



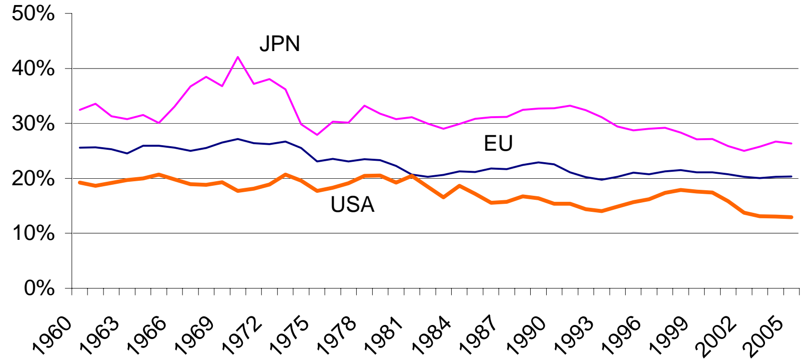


Figure 2. Gross national saving, selected regions, 1960-2005

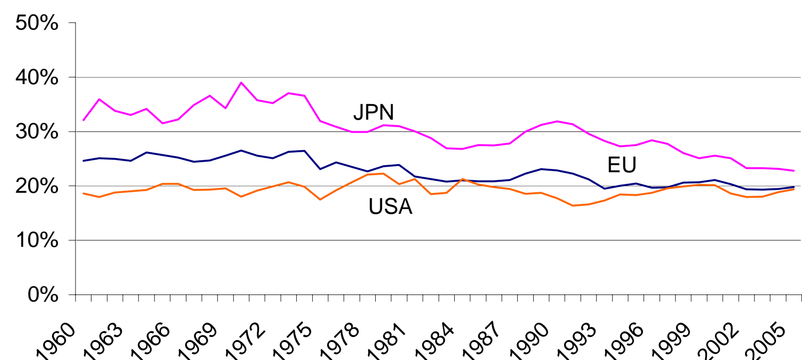


Figure 3. Gross capital formation, selected regions, 1960-2005

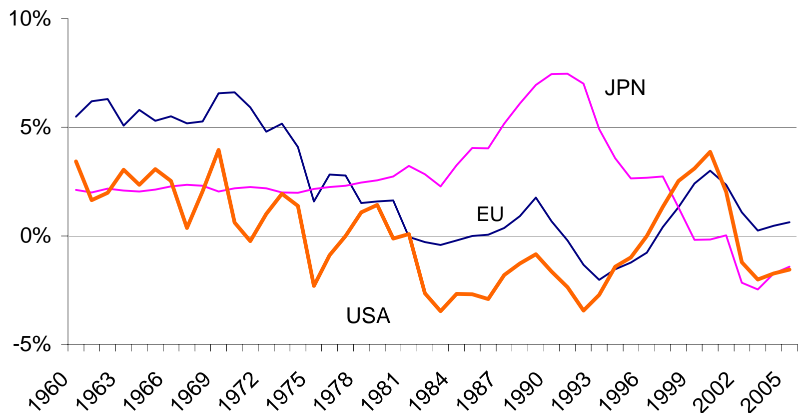


Figure 4. Gross saving, general government, selected regions, 1960-2005

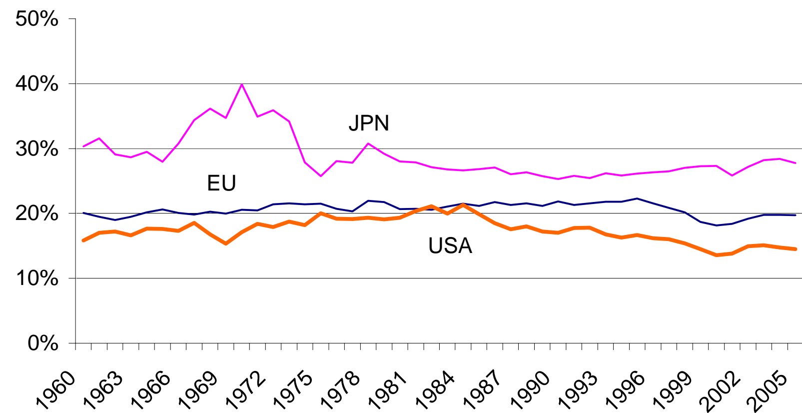


Figure 5. Gross private saving, selected regions, 1960-2005

Table 2a. Current account as share of World GDP, selected regions and years
Percent

Region	1980-89	1990-94	1995-99	2000-04	2005p
U.S.	-0.4	-0.2	-0.5	-1.4	-1.8
Japan	0.3	0.4	0.3	0.4	0.4
Europe[1]	0.0	0.0	0.3	0.2	0.2
Emerging Asia[2]	0.1	0.1	0.2	0.4	0.4
Emerging Latin America[3]	-0.1	-0.1	-0.2	0.0	0.1
Middle East[4]	0.1	-0.1	0.0	0.2	0.5

Table 2b. Gross saving as share of Regional GNI, selected regions and years

Region	1980-89	1990-94	1995-99	2000-04	2005p
U.S.	17.5	14.8	16.9	14.6	12.9
Japan	30.9	31.8	28.5	26.1	26.3
Europe[1]	21.5	20.8	21.1	20.5	20.3
Emerging Asia[2]	33.0	35.0	36.0	36.3	40.6
Emerging Latin America[3]	20.5	18.4	18.7	19.2	17.8
Middle East[4]	22.8	18.5	23.6	28.1	40.6

Table 2c. Gross capital formation as share of Regional GNI, selected regions and years

Region	1980-89	1990-94	1995-99	2000-04	2005p
U.S.	19.7	17.3	19.3	18.7	19.4
Japan	28.7	29.7	26.9	24.1	22.8
Europe[1]	21.7	21.2	20.2	19.9	19.8
Emerging Asia[2]	31.3	33.7	33.6	32.2	35.7
Emerging Latin America[3]	22.2	20.9	22.0	20.0	16.9
Middle East[4]	23.1	25.0	23.0	21.6	21.2

Source: *OECD National Accounts* Volume II, *OECD Economic Outlook, IMF World Economic Outlook,* World Bank *World Development Indicators*, various country statistical agencies.

1. Austria, Belgium, Switzerland, Germany, Denmark, Spain, Finland, France, Great Britain, Greece, Ireland, Italy, Netherlands, Norway, Portugal and Sweden.

2. China, Hong Kong, India, Indonesia, Malaysia, Phillipines, Singapore, South Korea, Taiwan, Thailand. First column average for 1982-1989.

3. Argentina, Brazil, Chile, Columbia, Ecuador, Mexico, Peru, Venezuela.

4. Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, UAR, Yemen. Data as share of regional GDP.