

THE DECLINE IN HOUSEHOLD SAVING: WHAT CAN WE LEARN FROM SURVEY DATA?

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In a global economy characterized by some as being awash in saving, Americans stand out for their devotion to consumption. The rate of private saving in the United States has declined precipitously over the past two decades. While the corporate component has surged during the current economic expansion, the household saving rate has continued to fall. Household saving has fallen from ten percent of disposable income in the first half of the 1980s to less than two percent in the first half of the current decade. This development should strike us as all the more surprising given the large number of baby-boomers who are in their peak saving years. Despite considerable empirical research, the source of the saving decline remains controversial; primarily because its one-time nature makes the question of the causes difficult to resolve on the basis of macroeconomic correlations.

This study examines the saving decline from the perspective of microeconomic survey data on the wealth position of American households. Can the surveys provide information on the nature and causes of the saving decline that are not evident in the macroeconomic information? The analysis concentrates on data obtained from six Surveys of Consumer Finances (SCF) covering the period of 1983-2001. The SCF had a panel dimension only in the 1983-89 period. We conclude that the 1983-89 panel survey is a very valuable, but often ignored, exercise in measuring saving behavior. Key results from the study of the panel survey include the following:

- At the most aggregate level, the panel provides a very good match to the Flow of Funds; however, the errors are more substantial for some components. There is a large overestimate of the change in non-corporate business equity and an offsetting discrepancy in the estimate of the change in real estate assets. The discrepancies may be due in part to the redesign of the sample questionnaire in 1989, which creates some ambiguities in the matching of categories between the 1983 and 1989 surveys.
- The panel data indicate a very strong influence of age on saving, as households whose head is age 40 to 60 account for over three-fourths of all saving and their rate of saving is twice the average. There is a substantial volume of dissaving among households over age 60.
- Saving is highly concentrated among high-income households. The saving of the top third of the income distribution exceeds the total, due to the negative saving in the bottom third of the income distribution. Most notably, the rate of saving out of income is higher for those who were at the top of the income distribution in 1983.

- Households whose head had a college degree saved at nearly twice the rate of those with a high school education.
- Because considerable attention has focused around the role of the wealth-income ratio in the macroeconomic analysis of saving, we also classified households in the panel by their initial wealth-income ratio. Saving rates are high for the lower two-thirds of the distribution and negative for the top third.
- Households who owned a home at the beginning of the period accounted for a very substantial portion of the aggregate saving, but there is not a large difference between the saving rates of homeowners and non-homeowners.

The results from the panel highlight the extreme heterogeneity of saving behavior, and the difficulty of interpreting changes in aggregate saving. Unfortunately, the panel component of the SCF was discontinued after 1989. To examine the decline in saving of the past decade, we construct synthetic 10-year age cohorts from the 1983-2001 cross-section portion of the SCF, classified by the age of the household head in 1983.

The U.S. wealth data do not tell us much about saving in recent years because of the overwhelming importance of capital gains as the primary determinant of saving. Examining the wealth holdings, including the valuation changes, of each cohort, it is clear that younger households are accumulating wealth at a faster pace than earlier cohorts at a comparable age. However, after removing the real holding gains, wealth accumulation of the younger cohorts seems very similar to that of prior experience. This finding is consistent with a view that younger cohorts are saving at a slightly lower rate out of income.

We attempt to use the SCF data to analyze changes in aggregate saving by benchmarking the SCF data to corresponding categories of aggregate wealth and saving in the Flow of Funds. We can then construct estimates of saving by synthetic age cohorts. The results of this analysis are as follows:

- When capital gains are excluded, the adjusted data clearly capture the decline in aggregate saving. The data also show sharp differences in saving across the age cohorts, with negative saving estimates for the older cohorts.
- To adjust for some of the effects of mortality, saving is computed on a household basis – the change in adjusted wealth per household. This adjustment increases the volatility of the data, where the saving of the older cohorts sometimes changes sign. There is enough variation in the number of households in specific age cohorts to significantly alter the pattern of cohort saving.

Overall, efforts to substitute estimates of saving or wealth by synthetic cohort for panel-based measures of saving are severely limited. However, an evaluation of the panel portion of the 1983-1989 SCF suggests that meaningful measures of saving at the level of major groups of households can be obtained from a panel-based survey. The most substantial opportunity to improve our knowledge of the reasons for the decline in household saving would be to repeat the 1989 exercise by re-interviewing a portion of the households in each SCF survey.

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