

Why is the Chinese Savings Rate 50 Percent of GDP, While Ours is Less Than three percent of Disposable Income?

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The question has merit, but I came to it by a roundabout process. I was thinking about how our savings rate is low and falling. After all, we have lots of reasons to save: We've lost huge amounts of wealth over the past couple of years, and many people, especially Baby Boomers anticipating retirement, are over-leveraged. Social Security has gone negative, with outflows exceeding inflows, threatening its existence in its present state. Large fiscal deficits throughout any forecast horizon imply higher future taxes.

You would think that the United States savings rate would be high and rising.

China, by contrast, is in the midst of a real estate boom and its economy is growing at or near double-digit rates. The Chinese are also poor, with annual 2008 per-capita GDP estimated by the World Bank at \$3,263 U.S. dollars, while ours was \$46,716. Certainly, we're better able to afford saving. Yet, the Chinese are saving half of their meager income.

What is going on?

One reason for the disparity is that China has no safety net, no unemployment insurance, no medical insurance, no social security, nothing. Also, the Chinese government is a potent source of potential volatility. The Chinese have seen a lot of bizarre behavior by their governments over the past 100 years or so.

So, the Chinese have a large precautionary reason to save. They have another reason. They are likely to keep or bequeath their savings. There is no indication that, as potentially volatile as it is, the Chinese government is likely to tax away its citizen's wealth. They may end up in jail for visiting an unapproved web site, but the government is not likely to tax away their savings.

The Western World has safety nets. They are inefficient safety nets, and they are often burdened with questionable incentives, but safety nets exist. Most of us have insurance that pays for all but a small portion of our medical care. We have unemployment insurance. The precautionary motive to save is less.

There are other reasons for Westerners not to save. Our incentives are all screwed up (technical term). In the West, virtue (saving) is taxed and vice (profligate spending) is rewarded. We have programs for people who are at risk of foreclosure. We have bailouts for big businesses that took outrageous risks. We have bailouts for countries and states that have decades of making irresponsible spending commitments. These will be paid for by people who save.

The West's incentives are to dis-save. Baby Boomers, in particular, know they have the votes to be bailed out and they see the momentum to have the "wealthy" (savers) and the unborn pay for the bailout.

This is very ironic. Capital is safer in the, presumably, communist China than in the, presumably, capitalist West.