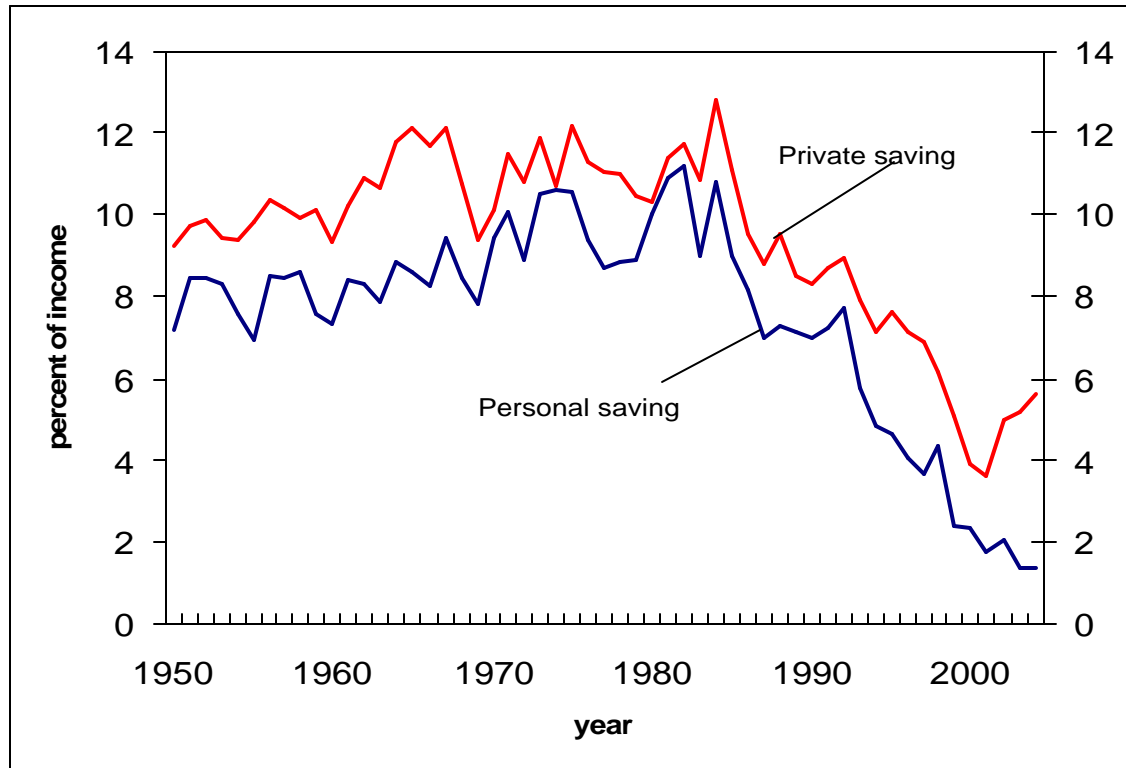


The Decline in Saving: What Can We Learn From Survey Data?

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Macroeconomic Evidence



Components of Decline

| | 1980-1984 | 2000-2004 | Change |
|------------------------|-----------|-----------|--------|
| Household saving | 10.4 | 1.8 | -8.6 |
| Pension saving | 5.9 | 2.1 | -3.8 |
| IRAs | 1 | 2.3 | 1.3 |
| Other saving | 3.5 | -2.6 | -6.1 |
| NIPA-FFA (discrepancy) | -1.7 | 0.3 | 2.0 |
| FFA other | 5.2 | -2.9 | -8.1 |

Potential Explanations

- No convincing evidence on cause of decline
 - Rise in wealth-income ratio
 - Much of saving decline predates asset boom
 - Mortgage refinancing
 - Timing
 - Inflation – small effect
 - Consumer durables – small effect
 - Don't know whose saving declined

Microeconomic Surveys

- Consumer Expenditure Survey
 - Fails to capture saving decline
 - Deteriorating estimate of expenditures
- Survey of Income and Program Participation (SIPP)
 - Captures about half of household wealth
 - Under-representation of high income household

Survey of Consumer Finances

- Six cross-section surveys covering period of 1983 to 2001
- One panel from 1983 to 1989
- Consistently captures large portion of household wealth
- National representative area survey augmented by high-income sample.

Net Worth, SCF Vs Flow-of-Funds

| Year | SCF | FFA | Percent |
|------|--------|--------|---------|
| 1983 | 9,548 | 8,318 | 115 |
| 1989 | 14,772 | 13,523 | 109 |
| 1992 | 15,593 | 15,560 | 100 |
| 1995 | 18,279 | 17,950 | 102 |
| 1998 | 26,470 | 24,630 | 107 |
| 2001 | 37,737 | 28,760 | 131 |

Income Comparison

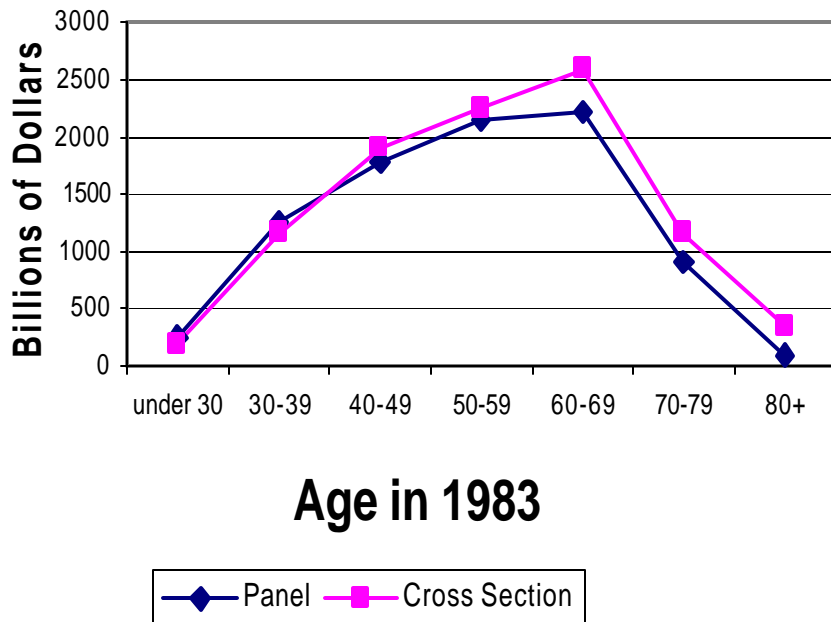
| Component | SCF | CPS | NIPA | (1)/(3) | (2)/(3) |
|-----------------------|--------------|--------------|--------------|----------------|----------------|
| | (1) | (2) | (3) | (4) | (5) |
| Earnings | 5,664 | 5,306 | 5,558 | 101.9 | 95.5 |
| Wages | 4,997 | 4,978 | 4,829 | 103.5 | 103.1 |
| Self Employed | 667 | 328 | 728 | 91.5 | 45.0 |
| Capital Income | 490 | 241 | 804 | 61.0 | 30.0 |
| Transfers | 619 | 772 | 815 | 76.0 | 94.7 |
| Total | 6825 | 6327 | 7177 | 95.1 | 88.2 |

The SCF and Saving

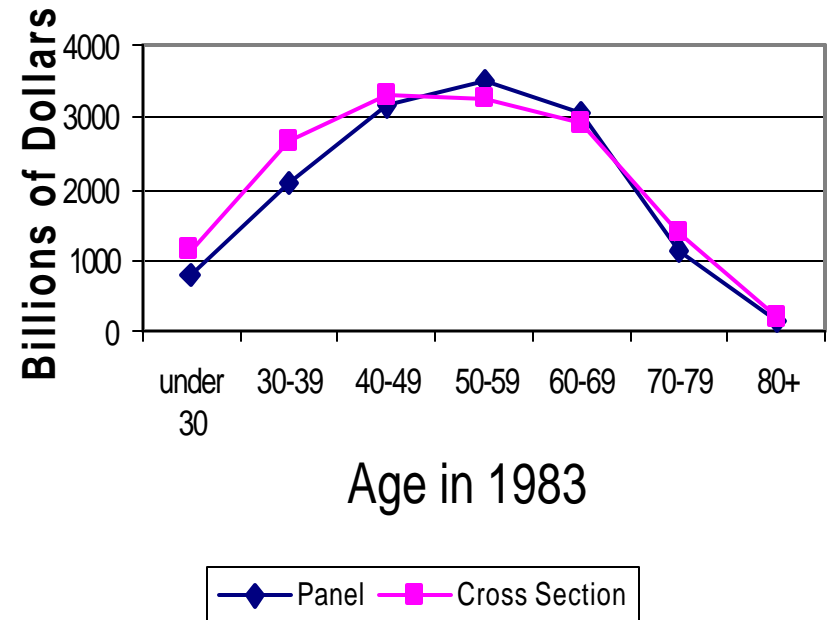
- The SCF is a wealth survey
 - No direct measure of saving
 - Wealth change is dominated by valuation changes
 - In 1983-2001 period, saving represents on 25 percent of change in household wealth
 - Need to derive means of adjusting for capital gains

1983-89 Panel vs Cross-Section

Net Worth, 1983



Net Worth, 1989



Age and Saving

| Age of household head in 1983 | Saving ex inheritances (billions \$) | Mean Saving (dollars) | Saving Rate (percent) | Inheritances (billions \$) |
|-------------------------------|---|--------------------------|--------------------------|-------------------------------|
| Under 40 | 384 | 10,683 | 5.6 | 101 |
| Age 40-60 | 786 | 28,796 | 12.7 | 213 |
| Over 60 | -94 | -5,026 | -3.4 | 65 |

Income and Saving

| Income in 1983 | Saving less inheritances (billions \$) | Mean Saving (dollars) | Saving Rate (percent) | Inheritances (billions \$) |
|----------------|---|--------------------------|--------------------------|-------------------------------|
| Lower third | -143 | -5,235 | -7.4 | 41 |
| Middle third | 60 | 2,210 | 1.5 | 100 |
| Upper third | 1,159 | 42,248 | 11.8 | 238 |

Wealth and Saving

| Networth in 1983 | Saving less inheritances (billions \$) | Mean Saving (dollars) | Saving Rate (percent) | Inheritances (billions \$) |
|------------------|---|--------------------------|--------------------------|-------------------------------|
| Lower third | 338 | 12,451 | 10.7 | 43 |
| Middle third | 500 | 18,554 | 12.1 | 58 |
| Upper third | 239 | 8,577 | 2.8 | 278 |

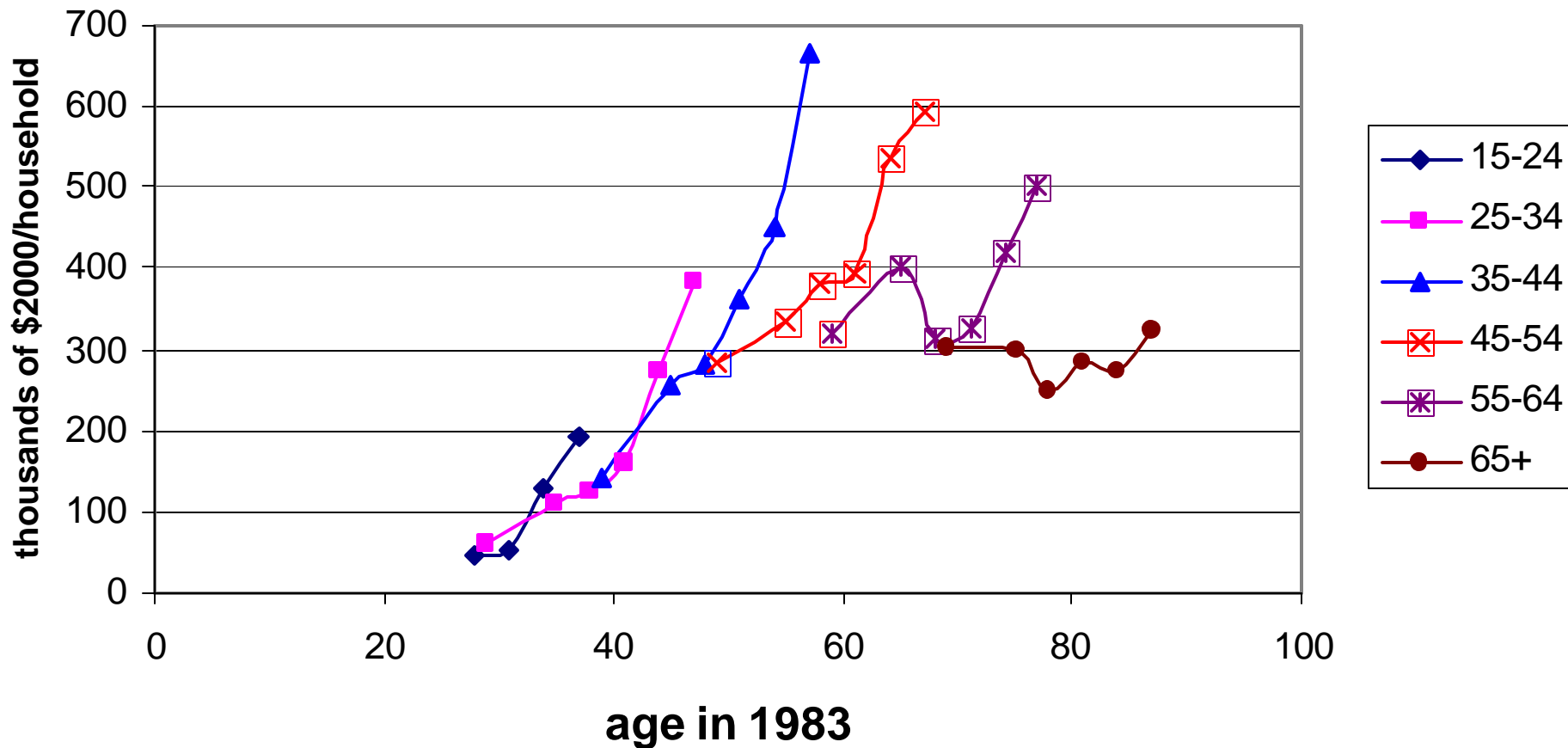
Evaluation of Panel

- Matches very well with cross-section survey
- Results seem very reasonable
 - Strong age effect on saving
 - Saving is concentrated among high-income households
 - Wealth is not a good predictor of saving
- Unfortunately panel was discontinued after 1989

Synthetic Age Cohorts

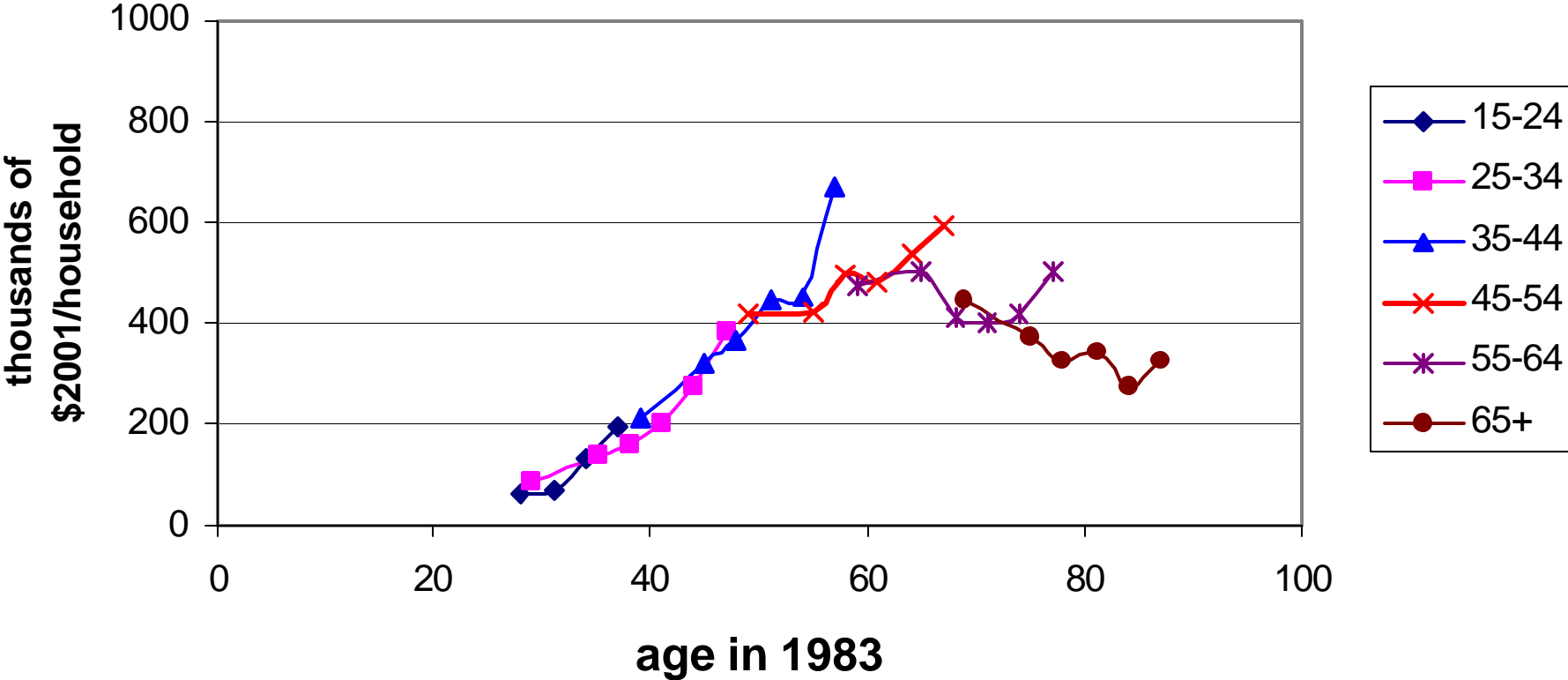
- Can they substitute for panel data?
 - Can construct useful cohort measures of wealth
 - Errors in estimate of wealth level plus variations in capital gains overwhelm direct measures of saving.
 - the age distribution of households changes over time due to marriage, divorce and death.

Net Worth by Age Category, 1983-2001



Net worth by Age Cohort, 1983-2001

Excluding Real Holding Gains



Synthetic Age Cohorts (2)

- We conclude that direct use of SCF for estimating saving does not work
- Experiment with use of SCF to provide micro structure to the Flow-of-Funds
 - Use SCF to derive socioeconomic structure of F/F wealth estimate.
 - Apply same adjustments as are implicit in F/Fs to translate stocks into flows

Estimates of Cohort Saving

- Large negative flows in older ages dominated by death.
 - Do not know the wealth distribution of those who die
 - Higher income/wealth individuals live longer
 - Saving per surviving household rises dramatically in several subperiods.
 - Younger households also affected by variations in number of households in cohort.

Conclusion

- We know very little about the causes of the decline in U.S. saving.
 - It is a major issue of substantial policy importance
 - We currently devote no significant effort to measuring saving behavior
- A synthetic cohort analysis is no substitute for direct panel survey data
- Need to reinstitute the panel component of the SCF.