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National Bureau of Economic Research

Public Policies and Household Saving

Edited by

James M. Poterba

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Public Policies and Household Saving

A National Bureau
of Economic Research
Project Report

Public Policies and Household Saving

Edited by James M. Poterba

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Introduction

James M. Poterba

The declining rate of national saving in the United States has stimulated seemingly endless debate on whether government policy should seek to reverse this trend, and if so, how it should achieve this objective. Much of this discussion has centered on policy options for raising household saving. In the early 1980s, the United States experimented with a program of universal retirement saving accounts, individual retirement accounts (IRAs), that relied on tax incentives to encourage household saving. In part because the institution of these accounts coincided with a decline in the private saving rate as measured in the national income accounts, and in part because of fiscal pressures associated with the Tax Reform Act of 1986, IRAs were partially phased out in 1986. The low private saving rate in the United States has persisted, however, and led to an ongoing search for new ways to encourage personal saving.

One reason policymakers suspect that personal saving rates can be influenced by government policy is the wide range of such rates across countries. Table 1 presents personal saving rates in a set of seven industrialized nations during the period from 1970 to 1988. The data show that the low-saving countries are the United States and the United Kingdom, with household saving rates of 5 percent of disposable income in the late 1980s. France and Germany report household saving rates twice as high, and the saving rates in Japan and Italy are three times as high as that in the United States.

The striking differences in the level of household saving across countries are matched by differences in government policies toward saving. While the United States has tried to increase private saving, some other nations, notably Japan, have tried to do the opposite. During the late 1980s, Japan curtailed the system of postal saving accounts that had for decades attracted substantial

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Table 1 **Personal Saving Rates in Industrial Nations (%)**

Country	1970	1980	1988
Canada	5.6	13.6	9.4
France	18.7	17.6	12.4
Germany	13.8	12.7	12.6
Italy	38.2	29.1	22.7
Japan	17.7	17.9	15.2
United Kingdom	9.3	13.5	4.4
United States	8.3	7.3	4.3

Source: Dean et al. 1990.

flows of household saving. Other policies, such as credit liberalization, were also adopted in an attempt to reduce private saving and stimulate consumption.

International comparisons of household saving incentives frequently focus on individual policy instruments, such as IRAs or postal saving accounts, even though personal saving incentives are affected by a wide range of government policies. Many of these policies operate through the tax system. They include income tax policies that drive a wedge between the pretax and posttax return to saving, as well as specialized tax policies that encourage households to save in particular institutional forms (such as IRAs in the United States) or particular assets (such as the tax exemption for capital gains on corporate stock in some nations). Household saving incentives can also be affected by the tax treatment of private pension plans and other retirement saving arrangements, by tax rules and credit market institutions that affect the after-tax cost of borrowing, and by a range of other policies.

The chapters in this book describe the array of policies that affect saving incentives in seven industrialized nations. Systematic study of the experience in different countries can yield important insights for both policymakers and academics whose knowledge is largely confined to their home country. International comparison can both expand the set of policy options that can be considered when discussion turns to private saving, and also provide potentially valuable information on the likely effects of various policy reforms.

The authors of each of the seven chapters in this volume are experts on the idiosyncratic features of their country's policies. Yet each chapter is written in a format that systematizes the description of institutions in different nations. Each of these chapters was presented and discussed at a conference held at the NBER offices in Cambridge, Massachusetts, in June 1992. The result is a collection of papers that provides a wealth of detailed information about saving incentives in a comparable and accessible fashion.

Each paper is divided into five major sections. The first provides an overview of the household balance sheet in each country, describing the relative importance of different assets and liabilities. This is important background information for analyzing tax policies and other public policies that affect private saving incentives. Although comparable data is not available for all seven nations in this study, the authors have tried to provide similar information where possible and to direct readers to primary sources for further data on household wealth holdings.

The second section in each paper focuses on tax policies toward capital income. Each paper summarizes the tax treatment of dividends, interest income, capital gains, and household interest payments to creditors. The papers also note the range of specialized tax policies, such as wealth and estate taxes, that apply to capital in some countries. The chapters describe the structure of the tax system as well as the effective tax rates that face households in different income and wealth strata.

The third section of each paper describes the system of employment-linked retirement saving. In many countries, pension saving accounts for a large fraction of total personal saving. One goal of this project is to provide detailed data on the structure of pension saving and the policy instruments that encourage or discourage it in various nations. The papers also include information on government retirement pensions, such as Social Security, and discuss any specialized provisions that may apply to saving for health expenditures late in life.

The next section in each chapter focuses on targeted saving programs. These are the specialized programs that typically operate through the tax system and provide higher returns if households save through specialized accounts or in particular assets. One of the central findings of this study is that there is substantial heterogeneity across countries in the terms of these programs. In some cases funds are locked away until retirement (IRA's and 401(k) plans in the United States); in other cases they can be withdrawn at the saver's discretion (registered retirement saving programs in Canada). In some cases the tax incentive for saving is provided when the contribution is made; in other cases it is delayed until funds are withdrawn from the saving account.

The fifth and final section of each chapter focuses on saving through insurance contracts. In some of the nations in this study, insurance contracts are one of the most important means of wealth accumulation. The tax treatment of insurance saving and the institutional structure of the insurance market are thus important influences on private saving behavior.

The country-specific analyses display a wide range of policies both across countries and within countries over the past few decades. It is difficult to generalize from the studies, except to say that there is great diversity. In Germany, for example, saving through employer-provided pensions is relatively unimportant, while in the United States and Canada pensions are a tax-favored form of saving that accounts for a substantial share of retirement income. The Japanese analysis provides important information on the relative importance of tax-subsidized saving, with the authors estimating that roughly half of all household saving in the mid-1980s was channeled to tax-favored saving plans. This finding suggests that to understand saving in Japan, it is not sufficient to analyze only contributions to the specialized saving programs.

The studies also show important differences in households' access to credit and suggest that this can affect the saving rate. High-saving countries, such as Japan and Germany, have tax systems that discourage consumer borrowing. These incentives are reinforced by relatively restrictive credit market conditions for individuals. Credit institutions and tax rules have also been subject to substantial change during the past decade. In the United States, for example, consumer interest was tax-deductible until 1986 but is no longer deductible. It is more difficult to describe the effects of changes in financial structure, in both the United States and other countries, that may have increased consumer access to various debt instruments.

The papers in this volume describe the saving policies and incentives in various nations, but they do not analyze their effects on private saving. To convincingly assess the impact of each program on saving would have resulted in a volume many times the size of this one, and in many cases the findings would be subject to criticism and dispute. This volume is therefore limited to cataloging the structure of policies in different nations. The second-stage research projects designed to identify the effects of various policies are left to readers whose interest in this subject may be encouraged by reading the chapters in this volume.

Reference

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