

**PAST, PRESENT, AND  
FUTURE TRENDS IN  
JAPAN'S HOUSEHOLD  
SAVING RATE**

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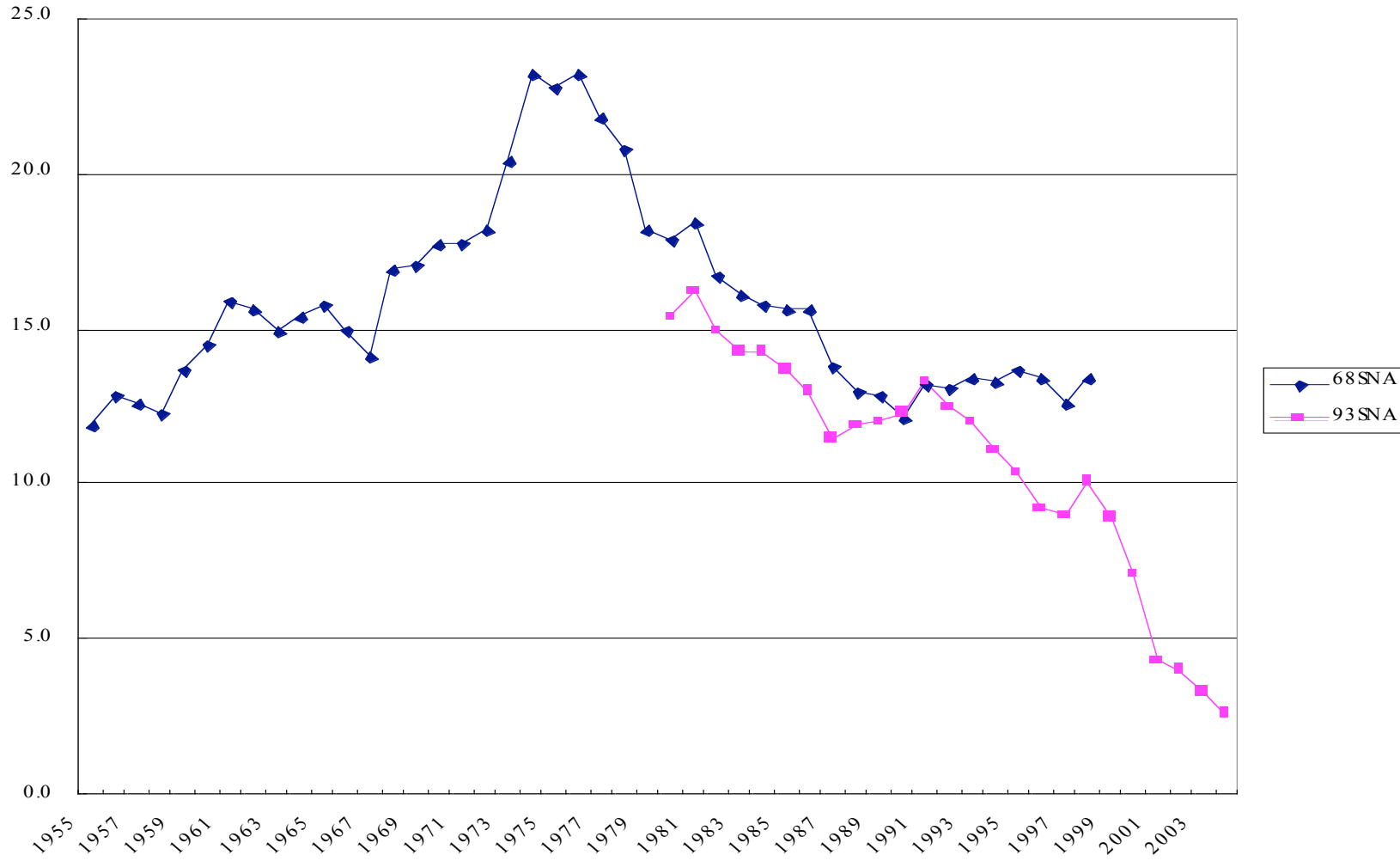
# **(1) Definition of the Household Saving Rate**

- **Household Saving = Household Disposable Income – Household Consumption = Net Increase in Household Assets (Financial Assets as well as Real Assets)**
- **Household Saving Rate = Household Saving/Household Disposable Income**

## **(2) Trends Over Time in Japan's Household Saving Rate**

- (a) Prewar period: Very volatile and low on average, often negative.**
- (b) War years: Very high but mostly forced saving.**
- (c) Postwar period: Increased until the mid-1970s, downward trend since then, high only during the 1960-85 period.**

**Trends in Japan's Household Saving Rate, 1955-2004**



### **(3) International Comparison of Household Saving Rates**

- Japan's household saving rate was one of the highest among the OECD countries until the 1980s, but its rank has fallen steadily since then and it is now less than the OECD average.**
- Thus, Japan's household saving rate used to be high in both absolute and relative terms, but it is now low in both absolute and relative terms. It was only during the 1960s, 1970s, and early 1980s that Japan's household saving rate was high.**

# Household Saving Rates of OECD Countries

**1985: 2<sup>nd</sup> (16.5%) (1<sup>st</sup> was Italy)**

**1990: 5<sup>th</sup> (13.9%) (1<sup>st</sup> was Italy)**

**1995: 7<sup>th</sup> (11.9%) (1<sup>st</sup> was Czech Republic)**

**2000: 7<sup>th</sup> (9.5%) (1<sup>st</sup> was Hungary)**

**2003: 13<sup>th</sup> (6.3%) (1<sup>st</sup> was Hungary)**

## **(4) Causes of Japan's High Household Saving Rate during the 1960s, 1970s, and early 1980s**

- Why was Japan's household saving rate high during the 1960s, 1970s, and early 1980s?**
- I will consider eight factors that have been suggested as possible causes of Japan's high household saving rate.**

## **(a) Culture, Tradition, Religion**

- **The argument is that the Japanese save a lot for cultural or religious reasons. One variant of the argument is that Confucianism has had a pervasive influence in Japan and that frugality is a virtue according to Confucian teachings.**

## **(b) The Age Structure of the Population**

- **Japan's population was relatively young until recently and a young population will generally exhibit a high household saving rate.**
- **Reason: According to the life cycle hypothesis, the young work and save part of the income they earn, and the elderly retire and dissave their previously accumulated savings. → Thus, the aggregate household saving rate will be higher, the lower is the elderly population relative to the working-age population.**

## **(b) The Age Structure of the Population (continued)**

- **Data on the share of the population aged 65 or older in Japan**
- **1975: 7.9% (Lowest among the OECD countries)**
- **2000: 17.2% (3<sup>rd</sup> among the OECD countries)**
- **2025: 28.9% (1<sup>st</sup> among the OECD countries)**

## **( c ) The High Rate of Income Growth**

- If income grows too fast or too unexpectedly, households will not be able to adjust their lifestyles and consumption standards to keep pace with their incomes, and as a result, household saving rates will increase, at least temporarily. Thus, Japan's high rate of income growth during the 1950s, 1960, and early 1970s can help explain her high household saving rate during this period.**

## **(d) The Low Level of Household Assets**

- Household assets were at very low levels just after the Second World War because the real value of financial assets was wiped out by the postwar hyperinflation and real assets (housing) were largely destroyed by the Allied bombings. Thus, Japan's high household saving rate can be partially explained by the desire of Japanese households to bring their asset levels back up to desired levels.**

## **(e) The Underdeveloped Social Security System**

- Japan's social security system was underdeveloped (including the public old-age pension system) until 1973, and an underdeveloped social security system will induce households to save on their own to prepare for their own retirement. Thus, Japan's underdeveloped social security system can help explain why her household saving rate was high until 1973.**

## **(f) The Underdeveloped Consumer Credit System**

- The consumer credit system, including housing loans, was underdeveloped until the 1970s, and thus households had to save up in advance before making large purchases. Thus, Japan's underdeveloped consumer credit system can help explain why her household saving rate was formerly high.**

## **(g) Tax Breaks for Saving**

- In the past, there were many tax breaks for saving such as the *maruyuu* system whereby the interest on bank deposits, postal savings deposits, government bonds, etc., was tax-free, up to a limit, and these tax breaks may have induced Japanese households to save more than they would have otherwise.**

## **(h) Saving Promotion Activities**

- **The Japanese Government engaged in a variety of saving promotion activities via the Central Council for Savings Promotion (films, posters, children's banks, model saving districts, etc.), and these saving promotion activities may have induced Japanese households to save more than they would have otherwise.**

## **(5) Causes of the Decline in Japan's Household Saving Rate after the Mid-1970s**

- Most of the eight factors that elevated Japan's household saving rate during the 1960s, 1970, and early 1980s have become less applicable since the mid-1970s, and thus they can explain why Japan's household saving has been declining since the mid-1970s.**

- **(a) The weakening of culture/tradition**
- **(b) The rapid aging of the population**
- **(c) The decline in the rate of income growth after the early 1970s**
- **(d) Increases in the level of household assets**
- **(e) Improvements in the social security system after 1973**
- **(f) Improvements in the consumer credit system after the 1970s**
- **(g) The abolition of most tax breaks for saving after 1988**
- **(h) The abolition of most saving promotion activities after 1988**

## **(6) Future Trends in Japan's Household Saving Rate**

- Moreover, most of the eight factors that elevated Japan's household saving rate during the 1960s, 1970s, and early 1980s can be expected to continue weakening in the future as well (with the possible exception of the underdeveloped social security system), thereby causing Japan's household saving rate to continue declining.**
- In particular, the aging of the population is projected to continue at a rapid pace, thereby causing Japan's household saving rate to continue declining and to become negative within a few years.**

# **(7) Policy Implications (slide 1)**

- **Why is saving important?**
- **Because it is a source of funds for investment (investment in plant and equipment, housing, social infrastructure, etc.), and investment is important because it expands the productive capacity of the economy and improves the quality of life of the people.**

## **(7) Policy Implications (slide 2)**

- **Thus, a sharp decline in the household saving rate to negative levels may cause a concomitant decline in investment, which in turn will have an adverse impact on the productive capacity of the economy and on the quality of life of the people.**

## **(7) Policy Implications (slide 3)**

- **However, I don't think that there is anything to worry about even if Japan's household saving rate declines to negative levels for the following reasons:**
- **(1) Other sectors of the economy (the corporate sector, the government sector, etc.) also save.**
- **(2) Investment is projected to decline due to declines in the population.**

## **(7) Policy Implications (slide 4)**

- **(3) Japan has the option of borrowing from abroad.**
- **Two qualifications:**
- **(i) Japan premium**
- **(ii) Worldwide saving shortage**
- **Thus, I don't think there is necessarily anything to worry about even if Japan's household saving rate declines to negative levels.**

## **(8) Summary**

- **(1) Japan's household saving rate was not always high and was high during the 1960s, 1970s, and early 1980s due to temporary demographic, economic, and institutional factors.**
- **(2) Japan's household saving rate has already declined to very low levels and can be expected to decline even further to negative levels.**
- **(3) The decline in Japan's household saving rate to negative levels is not necessarily anything to worry about.**

**Thank you for your attention.**