Do Americans spend too much and save too little?

In October, personal savings as a percentage of disposable income, as calculated by the Commerce Department, dropped to 0.2%, the second-lowest level on record. (The measure has since rebounded, helped in part by a one-time Microsoft dividend.) While not a complete measure, the personal-savings rate highlights the country's spendthrift ways. As the U.S. faces a wide trade deficit and rising health-care costs -- and debates the future of Social Security -- Americans' saving habits are under new scrutiny.

WSJ.com asked economist bloggers Alex Tabarrok and David Altig to take a close look at the numbers and consider ways businesses and the government can encourage saving. See what they have to say, and add your comments here.

**Alex Tabarrok writes:** Is America on a consumption binge? In 2003 the savings rate was a paltry 1.2% -- the lowest rate since the Great Depression, when savings briefly went negative. But before we tighten our belts we need to know that the standard measure of personal savings (from the National Income and Product Accounts) is highly flawed.

Savings in the NIPA are defined as income minus consumption. But what is consumption? The NIPA defines education expenditures as consumption, but try as I might to keep my students' attention with the occasional joke, I think few would report that they are paying me for entertainment value alone. Education expenditures ought to be defined as investment financed from savings.

The NIPA also measures savings on an annual basis. But suppose that you are asked what your savings are. You probably don't add up this year's income and subtract this year's consumption, instead you add up your stock of savings; the value of all of your assets including equities, bonds, net housing value, cash and so forth. The latter measure is the right one if we want to measure provision for the future. 

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**MEET THE PARTICIPANTS**

**David Altig** is vice president and associate director of research in the research department of the Federal Reserve Bank of Cleveland. His research focuses on monetary and fiscal policy issues. Before joining the bank in January 1991, Altig was an assistant professor of business economics and public policy at Indiana University. He is currently an adjunct professor of economics in the Graduate School of Business at the University of Chicago. He received a bachelor's degree in business administration from the University of Iowa and...
The flow and stock measures of savings can easily move in different directions. Indeed, a major reason that the yearly savings rate has declined is precisely because the value of assets has increased (see this).

A declining savings rate, therefore, can easily signal positive things about people's net asset position. Similarly, we have in recent years experienced a boom in productivity. If individuals expect the boom to continue, it may be quite rational to reduce current savings.

Supporting this analysis is the fact that the decline in the savings rate as measured by the NIPA is concentrated among the richest 20% of Americans -- precisely those who have seen a high return to their education, higher asset values and increased productivity.

I don't think, therefore, that we are facing a "savings crisis."

Some people and some sectors of the economy, however, are saving too little. The federal government is saving too little. Anyone counting on Social Security for their retirement is saving too little. Anyone counting on housing prices to continue rising at recent rates is saving too little. In fact, most of us are probably saving too little. How is this consistent with the lack of a crisis? Properly measured savings are probably no lower today than in the past, but the willpower and foresight to save optimally are always in short supply.

More on the evidence for these matters and what do about them in a future post. Over to you, David.

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**David Altig writes:** Thanks for the nice start, Alex. I agree with the notion that we are dealing with not one question, but many. Is aggregate saving too low? If so, is private saving the problem? Is the government deficit (that is, low government saving) the problem? How do we know they are problems? And how will we know when those problems are fixed?

Ahh -- there is the essential starting point, I think. What could we possibly mean by "too low"? For many, the really scary part of the picture is the precipitous decline in U.S. personal saving rates (by the NIPA definition) that started in the mid-1980s. From 1959 to 1985 (to pick a somewhat arbitrary ending date), the average household saving rate was just over 9%. It hardly makes any sense to discuss an average since, as that rate has declined steadily, to the less than 1% level we seem to be at now (assuming the Microsoft-driven blip at the end of last year was an anomaly).