“The Saving Glut of the Rich”

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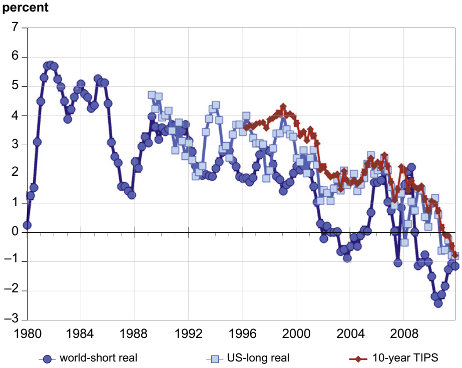
Context: The Global Savings Glut

- Gourinchas and Rey handbook chapter (2015):

Table 10.1 Current Account Balances, Fraction of World GDP

	Period		
Region	**1980–1996**	**1997–2006**	**2007–2012**
United States	−0.44	−1.17	−0.86
Japan	0.32	0.36	0.26
European Union	−0.10	0.04	−0.07
Oil producers	−0.06	0.28	0.57
China	0.01	0.15	0.49
Emerging Asia ex-China	−0.01	0.19	0.26
Latin American and Caribbean	−0.13	−0.10	−0.07
Rest of the World	−0.08	−0.02	−0.14

Source: IMF World Economic Outlook, April 2012. Oil producers consist of Canada, Norway, Mexico, Russia, Venezuela, Saudi Arabia, Iran, Kuwait, Libya, Oman, and Bahrein. Emerging Asia ex-China consists of Taiwan, Korea, Malaysia, Indonesia, Philippines, Singapore, and Thailand.

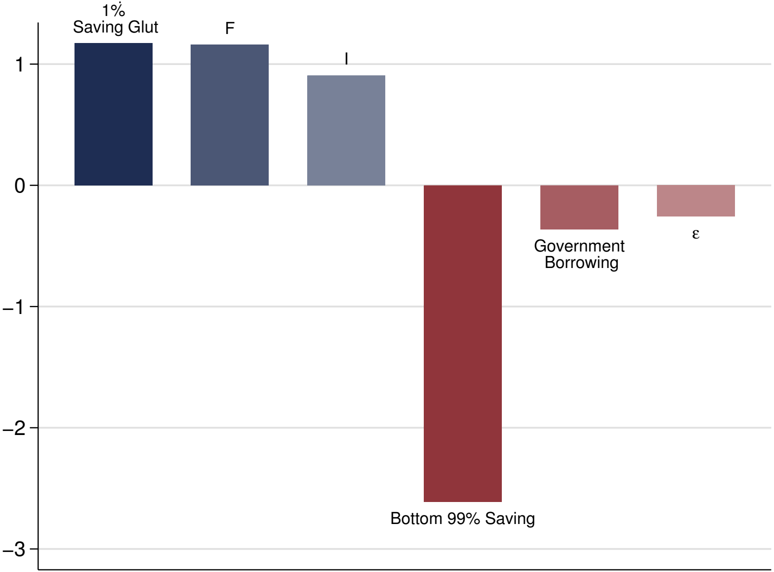


- Bernanke 2005: "I will take issue with the common view that the recent deterioration in the U.S. current account primarily reflects economic policies and other economic developments within the United States itself."

The Savings Glut of the Rich

- Another trend: rising income inequality (Piketty and Saez 2003)
  - but the rich (i.e. top 1% income group) have relatively high savings rates
  - so (holding fixed savings rates by income groups) income inequality should have driven savings increase
  - some income group's savings rate must have changed
- This paper: it wasn't the top 1%
  - savings rates by top 1% roughly unchanged, dollar savings increase comparable to global savings glut
  - increased borrowing/reduced savings by bottom 99% (plus some government borrowing) absorbed both gluts

Change in Net Savings/GDP, 1983-2016



How the Sausage is Made

Authors must estimate dollar savings of top 1%. How?

Method 1:
Income Less Consumption

1. Get Income Data
2. Get top 1% consumption
   2.1 at one date, for some categories
3. Assume:
   3.1 cons. shares of 1% same as share of 99% across categories
   3.2 savings rate of 1% constant over time
4. Difference to get change in savings

Method 2:
Infer from Wealth Change

1. Get Income Data
2. Capitalize to get wealth
3. Difference to get change in wealth
4. Remove price changes to get savings
5. Difference to get change in savings

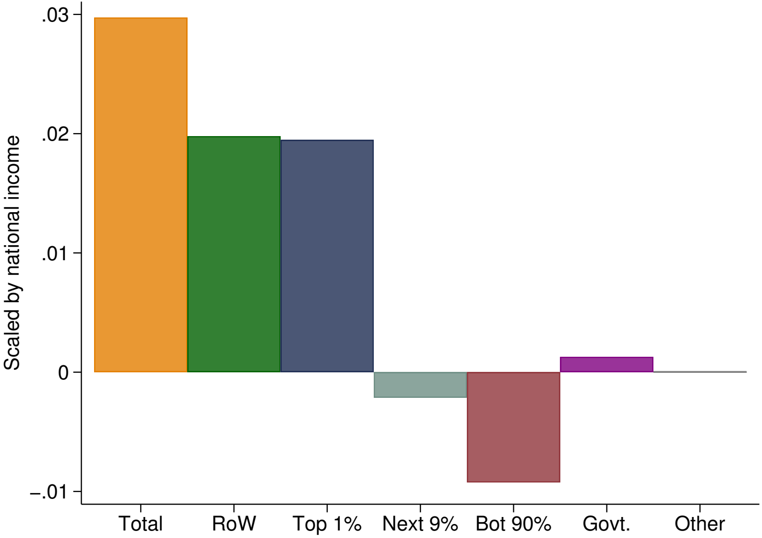
Comments on the Method

- Method 1 relies on assumptions, consumption data
  - but those assumptions have reasonable justifications in Fischer et al 2016 and Aguiar and Bils 2015
- Method 2 relies on less obvious assumptions
  - assumptions on capitalization factors matter for wealth estimate (e.g. Saez and Zucman 2016, Smith et al 2020).
  - more assumptions matter for removing price changes
  - differencing noisy data twice never makes things better
- Good news: the two methods roughly agree
  - method 2 results bounce around as expected
  - implicitly, method 2 estimated savings rate roughly constant over time
- A possible third method: estimate top 1% consumption as aggregate minus bottom 99%

But Who Lent to Whom?

- If foreigners and the rich financed household debt:
  - did it actually happen that way?
  - or maybe foreigners moved out of other stuff, into household debt, and the rich filled the gaps?
- To answer, the authors "Unveil the Financial System"
  - Assets: household debt, gov. debt, other stuff
  - people: top 1%, next 9%, bottom 90%, foreigners
  - intermediaries: banks, federal reserve, FNMA, mutual funds, insurance companies, etc..
  - procedure: assign all assets of intermediaries to liability owners, repeat until no more intermediaries
  - then difference (to get flows) and difference again (to get changes)

The Financing of Increase in HH + Gov Debt



Comments on Unveiling

- Conceptually, the idea is very neat
  - Taking "finance as a veil" view seriously
  - "corporations are people too"
- Practically, many arbitrary choices:
  - unveiling federal reserve but not rest of government
  - if rich person finances commercial real estate, unveiling says she owns land, but if she finances residential real estate, she owns HH debt
  - rich and non-rich might own different deposit/equity mix in banks; in unveiling, this does not matter
- A lot of work to reach conclusion "both rich and foreigners financed the debt increase"

Conclusion

- top 1% and foreigners financed increase in HH debt
- result re-frames questions on the global savings glut:
  - why did they accept such low rates?
  - why is the borrowing of US (but not, e.g., German) HHs so sensitive to rates?
  - were US-specific factors (or rising income inequality) in part responsible?
- the unveiling method is intriguing, perhaps start of something very exciting
  - there is an opportunity to develop method and to use it to reach sharper conclusions