Savings: Japan vs U.S.

By Kazuhiko Nagato

The Japanese household savings ratio rose steadily through the high-growth period of the late 1950s and 1960s, but this growth was derailed by the 1973 oil crisis and has fallen since then. Nevertheless, the savings ratio remains much higher in Japan than in the other industrialized countries.

This is especially true in comparison with the United States, and the Japanese average household savings ratio of 17% is nearly three times the United States average of about 6%. How are we to account for this difference in savings ratios? This article looks at some of the institutional and non-institutional factors that have contributed to shaping savings patterns in Japan and the United States.

First is the difference in the two countries' social security systems. In Japan, as has often been pointed out, people save out of necessity to provide for their old age, illness or other misfortunes because the public provisions for social security are not as well developed as they are in the other industrialized countries. It has also been suggested that the larger percentage of old people living with their children's families has meant that Japan has not seen the typical Euro-American pattern of older households drawing upon their savings, and that this has kept the average household savings ratio unusually high.

A binational comparison shows the sum of non-discretionary expenditures (taxes and social security payments) and savings as a percentage of gross income to be nearly the same for both Japan and the United States, even though non-discretionary expenditures and savings vary widely between the two countries (Table 1). This total percentage is also relatively stable over time, although there has been a tendency in both Japan and the United States for non-discretionary expenditures to account for more, and savings for less, of gross income since 1975. It may thus be reasoned that there is a substitutive relationship between non-discretionary expenditures and savings, and there is a strong possibility that as the Japanese social security system expands and uses more of people's limited funds the Japanese savings pattern may come to more nearly resemble the American pattern.

Another meaningful comparison between Japan and the United States is in terms of total savings (defined as real investment plus the increase in financial

Table 1 Income Disposal in Japan and the United States

(%)

	Japan (a)	United States (b)	Difference (a–b)
Taxes and social security payments (1)	12.1	19.9	–7.8
Disposable income	87.9	80.1	7.8
Savings (2)	15.8	6.3	9.5
Taxes, social security and savings (1+2)	27.9	26.2	1.7

Note: Figures are average percentage shares of gross income for the period 1964–81.
Source: *National Accounts of OECD Countries,* OECD, 1983

Table 2 Housing Investment and Purchases of Consumer Durables

(%)

	Japan (a)	United States (b)	Difference (a–b)
Savings (1964–81 average)	15.8	6.3	9.5
Housing investment (1)	7.9	4.0	3.9
Other savings (2)	7.9	2.3	5.6
Purchases of consumer durables (3)	4.0	9.7	–5.7
Housing plus durables (1+3)	11.9	13.7	–1.8
Other savings plus durables (2+3)	11.9	12.0	–0.1

Note: Figures are average percentage shares of gross income for the period 1970–81.
Source: *Shikin junkan kanjo* (Flow of fund accounts), Bank of Japan, 1982; *Flow of Fund Accounts 1945–83,* Federal Reserve Board, 1984; *Balance Sheets for the U.S. Economy,* Federal Reserve Board, 1984

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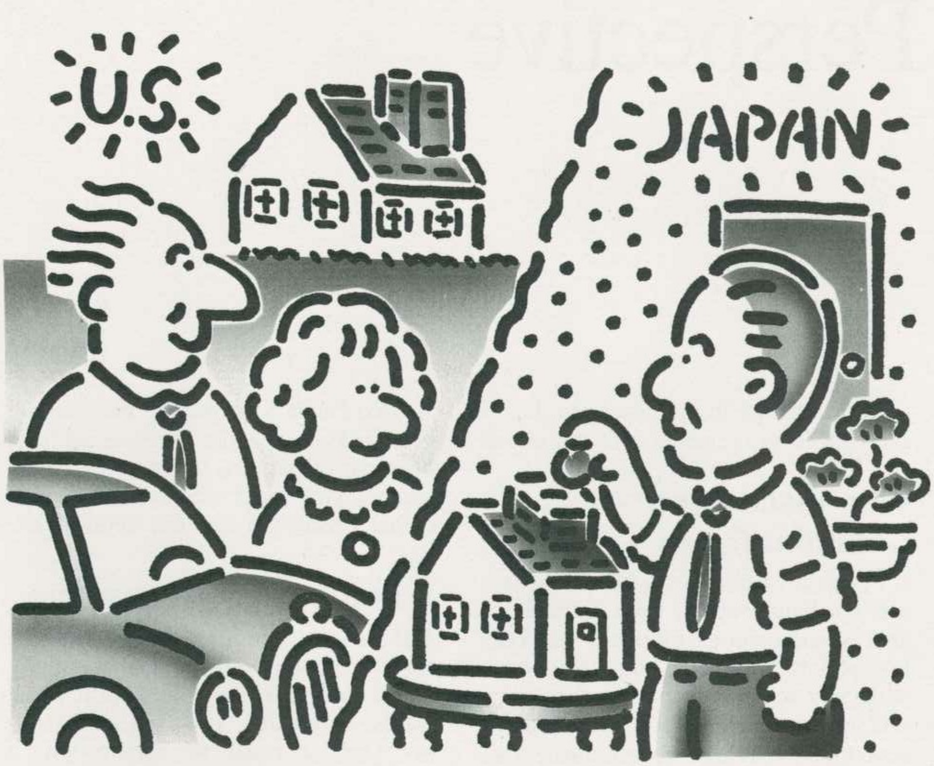

assets minus the increase in financial liabilities) as a percentage of disposable income. It should be noted, however, that the term real investment as used here includes not only investment in real estate but also purchases of consumer durables. Statistically, consumer durables are commonly treated as consumption, but they can justifiably be included with real estate investment since the purchasing household expects to use the goods over a period of many years and sees their purchase as an investment.

Housing costs major factor

In Table 2, the first point to be noted is the striking discrepancy between the two countries in housing investment. Whereas housing investment accounts for about 8% of household asset formation in Japan, it is only half that (4%) in the United States. Much of this difference may be attributed to the housing price differential between the two countries. In Japan, housing costs (for a metropolitan-area, single-unit home) are typically six times higher than annual income. In the United States, it is only about three times annual income. Housing costs are especially high in Japan for the following reasons: there was a shortage of housing right after the war; the massive influx of population into the urban areas exacerbated the demand for housing; and there was very strong demand from people who wanted to move out of dilapidated or crowded substandard housing. All of these factors have driven land, and consequently housing, prices sharply upward.

As a result of the high cost of Japanese housing, it is impossible to buy a home with borrowed money alone, and a family wanting to buy a house must have saved a down payment equal to about two years' annual income. Accordingly, the ratio of savings to annual income is over 170% for Japanese families planning to purchase a home and about 120% for families not planning to purchase homes. Mortgage repayment is another important factor raising the Japanese savings ratio. Thus the high cost of housing in Japan is a major factor in keeping the Japanese savings ratio high.

The second point to be noted from Table 2 is the difference in purchases of consumer durables (before depreciation) as a percentage of gross income. While this is only about 4% in Japan, it is over twice that (nearly 10%) in the United States. Part of this difference is explained by the differences in consumer credit utilization, since increasing consumer credit use is a factor pushing consumption up. Comparing the two countries, it is found that the United States has about five times the outstanding consumer credit that Japan does, that the average U.S. household borrows about three times as much as the average Japanese household (both 1984 year-end figures), and that the consumer credit dependence (the ratio of credit extension expansion to consumption expansion) has averaged about 6% over the past decade in the United States—far higher than the Japanese figure of 1%.

These differences in the two countries are thought to derive from the different attitudes financial institutions take toward lending to individuals and the different attitudes households have toward borrowing. In addition to the relative immaturity of revolving lines of credit and other consumer credit systems in Japan, there is also a strong Japanese wariness about possible income erosion in inflationary times and people generally tend to be leery of over-borrowing. This Japanese attitude stands in striking contrast to the American "buy now, pay later" mindset with its inflationary predisposition.

Different reasons for saving

Finally, it is worth comparing the two countries in terms of financial asset formation. The two main factors accounting for the difference in the rates of increase in financial assets are the different savings motivations and the different scales of financial stock.

Looking first at reasons for saving, much of the Japanese savings is to pay for real estate purchases or for children's education and weddings. Such "fixed" savings, which are unlikely to be diverted to other uses, have traditionally formed the core of Japanese savings.

There has also been a large portion of highly liquid savings created in part in response to the paucity of financial stock (Japanese financial stock being only about one-third that in the United States) and partly as contingency savings in response to the underdeveloped state of Japanese social security provisions and the consequent need to save in case of illness or other misfortune.

Taking all of these factors together, there is not nearly as much difference between Japan and the United States in the sum of their savings plus investment as there is in their savings ratios alone. While Americans tend to put the priority on purchases of consumer durables, Japanese tend to focus more on saving for home acquisition or their old age. This preferential and elective difference is the sum of many factors, not only institutional differences such as social security systems, tax systems and consumer credit systems but also such non-institutional factors as attitudes toward inflation and lifestyle differences. ●