Household saving in selected industrialised countries and its relationship with valuation of asset holdings*

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Abstract

Over the past decade, a fairly synchronised and steady decline in household savings rates has been witnessed in some OECD countries and not in others. In these "large English-speaking countries", which share many similar institutional and cultural features, declines in household or personal saving appears to have been correlated with large gains in wealth valuation and rapid financial innovation. An empirical investigation based on an error-correction framework indicates that gains in the valuation of asset holdings have indeed been important as a substitute for traditional household saving (i.e. personal saving as defined in the national accounts) over the last decades, and that this effect has been generally intensifying through time. Existing studies analysing private saving have tended to either focus on individual countries, finding the importance of wealth effects in certain cases, or a panel of OECD countries in which other common factors tend to dominate the wealth effect. In the latter case, it is argued that the lack of a significant wealth effect may be attributable to panel heterogeneity.

JEL classification: E21, C22

Key words: Household saving; Wealth valuation; Error-correction

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