Comments on Mark Nelson "Demographic patterns and household saving in China"

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HKIMR Annual International Conference on the Chinese Economy

Macroeconomic Management in China: Monetary and Financial Stability Issues

13-14 January 2011, Hong Kong

The question, model and findings

- Question: would demographics explain the high and rising household saving in China?
  - Since 1978, China experiences sharp declines in its youth dependence and pronounced rises in its working-age share
- OLG model with agents in five groups, living 85 years and having perfect foresight
- Key finding from simulation
  - Falling youth dependence gives rise to higher saving via two channels: few mouths to feed now and anticipation of fewer workers to provide retirement support when old

The five groups of the population

1. Children (0-17): parents make consumption decision and derive pleasure in doing so
2. Retirees (64-85): live on assets and income transfers from working adults and leave bequest to “adult children”
3. Working adults (18-63) work, transfer income to their retired parents and save for their own future retirement
4. Parents (18-47) raise children
5. “Adult children” (48-63) receive bequest

General comments

- I generally accept the intuitions and thrusts of the main finding regarding the two likely channels of the impact of falling youth dependence on saving rate
- Such insights have been explicitly explored in Ma and Zhou (2009): “China's evolving external wealth and rising creditor position”, *BIS Working Paper* 286
- The remaining comments serve to poke for additional advances and enhancements

Additional comments

- Would working adults also derive pleasure from supporting their retired parents?
- Also, why not bequest to working parents?
- Given a steady old-age dependence, would a collapse in youth implies a rising share of working-age population?
- Should we question the assumption of perfect foresight?
- Could habit persistence play some role as well?
- The household saving rates in Table 1 and Figure 1 seem to clash with each other?
- Does the model capture the principal factors behind the high and rising saving rate in China?

Measuring household saving in China

Three phases in aggregate saving

(% of GDP)

Composition of gross national saving

(% of GDP)

Broader context for Chinese saving

- China's gross national saving rose from 36% of GDP to 53% during 1992-2008
- The household sector was barely the largest saver in China and only added less than 20% of the rise in gross national saving in this episode
- 80% of this marked surge came from higher corporate and government saving, not household saving
- Higher working-age share may cap wage growth and contribute to profit share and thus corporate saving
- Still puzzles remain as to why government saving accounts for half of the increase in gross national saving during the 2000s