

from the Tax Policy Center

Net National Saving

By Peter R. Orszag

Net saving — that is, saving after subtracting depreciation on existing physical assets — is a key determinant of long-term economic growth. Higher levels of net saving increase the accumulation of capital by Americans, and thereby raise future national income. In 2003, net national saving amounted to 1.8 percent of net national product (NNP), the lowest share since 1934.

Net national saving can be divided into two components: saving done by the private sector and saving done by the government. In 2003 the private sector saved 6 percent of NNP, while the government dis-saved 4.3 percent of NNP.

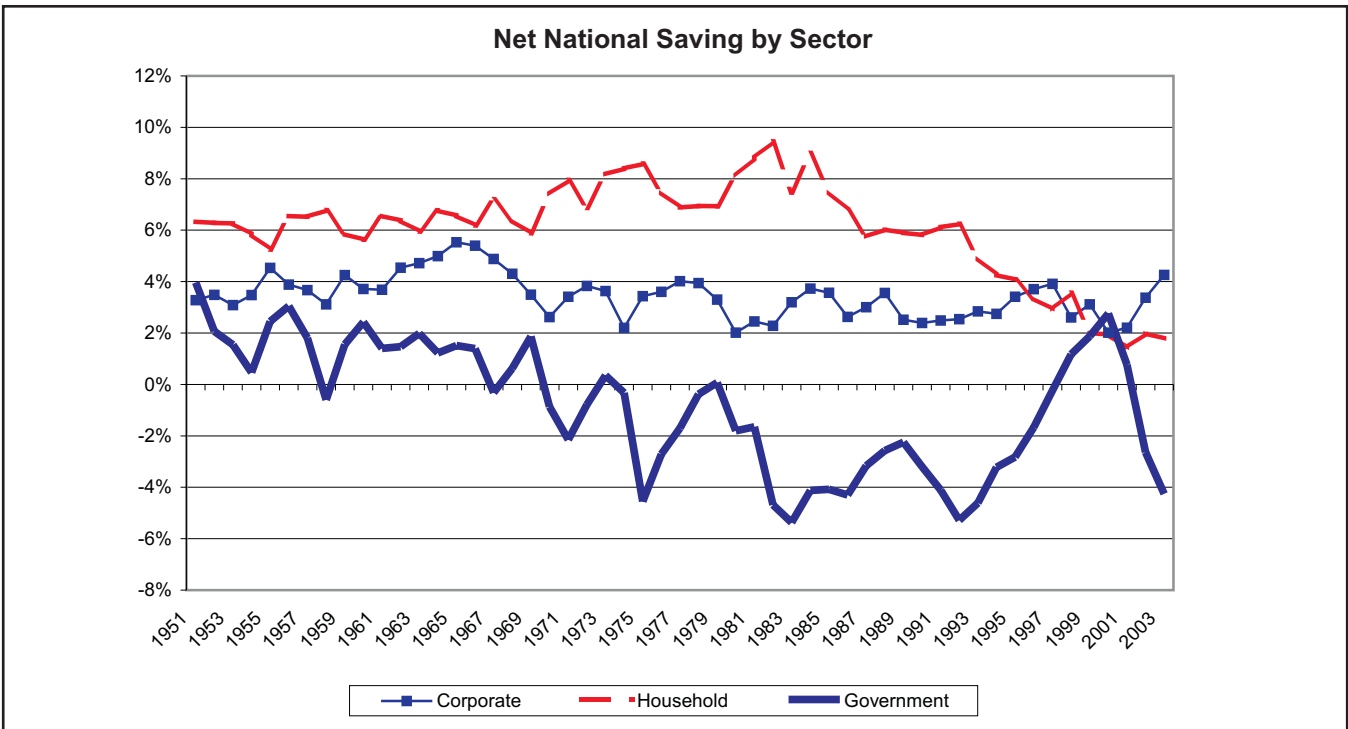
Net saving in the private sector can be further broken down into saving undertaken by corporations (that is, undistributed profits) and saving undertaken by households (that is, spending less than income). In 2003,

corporate net saving amounted to 4.3 percent of NNP, while household net saving amounted to 1.8 percent of NNP.

The chart below shows net saving by sector over time. Government net saving rose dramatically during the 1990s and has declined by a stunning 7 percent of NNP since its peak in 2000. The corporate saving rate has been relatively stable, generally fluctuating between 2 percent and 4 percent of NNP during the postwar era. Household net saving has declined substantially, from more than 8 percent of NNP in 1980 to 1.8 percent in 2003.

These figures are based on saving as officially measured in the national income and product accounts. It is important to recognize that what should be included in saving (for example, capital gains) depends on the issue under examination. Furthermore, the sectoral division of a given amount of saving sometimes requires rules that can be arbitrary and potentially misleading.

For example, the component of interest payments from businesses to households that reflects compensation for inflation is not distinguished from the inflation-adjusted component.



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