

The Saving Rate of a “Clean” Household Sector

By

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Main Objective of the Paper

To make a comparison of the *saving rates* of *household sector* of European Countries, after making suitable definitional adjustments in saving rate formulation

Organisation of the Paper

Into *four* sections:

1. **Brief Introduction**
2. **Factors Addressed in respect of Saving Rate**
3. **Results**
4. **Conclusion**

Definition of Household Sector (S.14)

As per ESA2010, “the Household Sector consists of individuals or groups of individuals as consumers and an entrepreneurs producing market goods and non-financial & financial services (market producers), provided that the production of goods and services is not by separate entities treated as quasi corporations. It also includes individuals or groups of individuals as producers of goods and non-financial services for exclusively own final use.

Further, the household sector includes employers (S.141) and own account workers (S.142), consisting of the group of households for which the incomes accruing to the owners of household unincorporated enterprises from their activity are the largest source of income”

[ESA2010; 2.118, 2.122]

Adjustments made in the Estimation of Saving Rate of Household Sector in respect of Three Factors:

- **Non-profit Institutions Serving Household (NPISH);**
- **Quasi Corporations; and**
- **Interest of Property Income**

About NPISH Sector (S.15) [ESA2010 2.129 – 2.130]

- **NPISH** → Consists of non-profit institutions given as separate legal entities, that serve households and which are private non-market producers.
- **Their principal resources** → Voluntary contributions (in cash or kind) from (a) Households in their capacity as consumers, (b) Payments made by general government, and (c) property income.
- **The sector includes activities, like:** Trade unions, professional or learned societies, consumers' associations, political parties, churches or religious societies (including those financed but not controlled by governments), and social, cultural, recreational and sports clubs; and charities, relief and aid organizations financed by voluntary transfers in cash or in kind from other institutional units.“
- Since some of the European countries have started providing separate information in respect of such non-profit institutions, so the authors have advocated for the incorporation of information from this sector while computing saving rate of the household sector.

About Quasi-Corporations (S.15) [ESA2010 : 2.13f]

- **Quasi-Corporations** → Entities which keep a complete set of accounts, but have no legal status. These have an economic and financial behaviour that is different from that of their owners and similar to that of corporations. They are deemed to have autonomy of decision and are considered as distinct institutional units.

- **Major difficulty in identifying quasi-corporations** → Allocation of producer units b/w (a) financial corporations, (b) non-financial corporations, and (c) household sector.

About Quasi-Corporations (S.15) [ESA2010 : 2.13f]

- **Two main types of quasi-corporation entities** → **(a) Sole Proprietorship (SPs)** [Type of business entity that is owned by one individual (natural person) and in which there is no legal distinction between the owner and the business. The owner receives all profits (subject to taxation specific to the business) and has unlimited responsibility for all losses and debts] **and (b) Unlimited Liability Partnership (UPs)** [Type of business entity in which two or more individuals manage the business collectively and who are personally liable for its debts]
- **In household survey data, SPs → Considered** (though with limited reliability), **but UPs → Not considered at all**
- **A fairly strong degree of association reported** → **b/w the proportion of income accruing from and the proportion of employment in the unincorporated units;**
- **The authors thus feel the relevance of assigning due importance to such units in saving rate computation.**

About Interest of Property Income (D.4)

- **Property Income (D.4) → The sum of investment income and rent;**
- **Net Interest (D.41) → A form of property income that is receivable by the owners of a certain kind of financial asset, *viz.* Deposits (AF.2), Debt Securities (AF.3), Loans (AF.4) and Other Accounts Receivable (AF.8), for putting them at the disposal of another institutional unit**
(ESA2010 4.42)
- **These financial assets → Claims of creditors over debtors;**
- **In the National Accounts, the payment or receipt of interest → Divided into (a) the service part, and (b) the national accounts concept of interest.**

About Interest of Property Income (D.4)

▪ **In the context of property income, the authors have debated upon certain issues, like:**

(a) Bank interest (actual payment or receipt of interest from financial institutions) **need be separated, so that the national accounts concept of interest and the services charge could be recorded distinctly;**

(b) In the context of FISIM (Financial Intermediation Services Indirectly Measured), **interest payments on mortgages, and reconciled transactions** (while estimating gross disposable income), **certain additive/ subtractive adjustments** (in household savings) **need be made in respect of service charges;**

Results on Household Saving Rate Computations

- Made for 29 European countries (without and with alternative adjustments) → Given in Table 4;

- Computations made through: $SR = \frac{B6G + D8NET - P.31}{B6G + D8NET}$; where

B6G → Gross Disposable Income;

D8NET → Net Adjustment for the Change in Pension Entitlements (Rec. *minus* pay); and

P.31 → Individual Consumption Expenditure

- For obvious reasons, alternative adjustments have provided with differential rates of saving, primarily because of interest paid by households.

- By way of the adjustments, changes (in SR) are comparatively large for certain countries, like Netherlands and Hungary.

Some Comments

- **Beyond doubt, Saving Rate is a useful proxy measure of economic status of a country;**
- **Furthermore, in a number of economies, household sector makes a predominant contribution in the overall saving rate and, therefore, the present paper has its own significance.**
- **Nevertheless, there are certain points which need be mentioned:**
- **The paper is simply descriptive in nature; lacks in analytical soundness;**
- **No concrete reasoning has been offered as to why the change (due to adjustments) is large in certain countries compared to the other countries;**

Some Comments

- No concrete analysis performed to examine whether the changes are really perceptible (although the authors have made a general conclusion that “... a marked difference is observed in each adjustment of the saving rate of the ‘clean’ household sector”);
- No reasoning offered as to why SRs of certain countries (like Cyprus, Latvia and Lithuania) have been *negative*;
- The paper seems to have been written a bit casually; Things like “Key Words”, “JEL Codes”, “Review of Related Studies”, “Data Sources”, “References”, *etc.* are completely missing. Better it would have been if the meaning of the terms “clean” (appearing in the title) and “NA” (appearing in Table 4) were mentioned explicitly. May be that the authors have to put in some more time to give a proper shape to the paper.

THANKS