Comment on "Household Saving in East Asia and Latin America: Inequality, Demographics, and All That," by Orazio P. Attanasio and Miguel Székely

Robert Holzmann

In economics we are familiar with the concept of lenders of last resort—the central bank for the financial system, the government for social protection programs. At conferences we are familiar with commentators of last resort—people already on the panel. I took on the role of commentator because of the first paragraph of Orazio P. Attanasio and Miguel Székely's article, which emphasizes the importance of savings for smoothing unexpected variations in the income of households and the resulting welfare implications in view of missing credit and insurance markets. Emphasizing the ability to transfer income between periods—to save—and thus to avoid costly coping mechanisms that interrupt human capital accumulation is very much in line with the social risk management framework that the Social Protection Sector of the World Bank has developed for its strategy paper (Holzmann and Jorgensen 2000; World Bank 2001). It is also at the core of the Bank's *World Development Report 2000/2001* (2000).

Measured against this motivation and objective, the article fares reasonably well, but more needs to be done. It is an interesting and rich article but is still very much a work in progress—much of the information at hand seems not yet distilled, and the work relies on graphical presentation rather than econometric analysis.

Moreover, the article wants to do too much. It might be useful to think about splitting it into two articles—one dealing with the microeconomic savings profile, the testing of the life-cycle hypothesis, the welfare implications, and so forth, and one addressing the macroeconomic issues, such as projections of future national savings rates, the implications for financial flows between countries and regions, and so forth.

Finally, and perhaps most important, the article currently lacks analysis and conclusions that link savings profiles at different education levels with the motivating question of the first paragraph—can and do the poor save and thus do they have the capacity to ride out income fluctuations? In view of the provisional character of the

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article, my comments are a selection of possibly arbitrary questions, comments, and suggestions.

Selection of Countries

The article attempts to compare Latin America and East Asia, whose aggregate national savings rates differ significantly. This is an important objective, since much of the difference in economic development between the two regions has been related to differences in savings behavior. But the choice of economies for the comparison—Mexico, Peru, Taiwan (China), and Thailand—might not achieve the objective, because it means contrasting two Latin American countries with average performance with two (perhaps former) Asian tigers. To achieve the objective, it would be better to compare laggards and leaders within each region, assuming, of course, that comparable data for such comparisons are available, which may not be the case.

Discrepancies between Macroeconomic and Aggregated Savings Data

Table 1 compares the aggregate private savings rate obtained from macroeconomic accounts with the household savings rate obtained from aggregated cross-section savings data for households. While the two measures are similar for Thailand (35.9 and 29.7 percent of GDP), they are very different for Mexico (25.4 and 9.5 percent of GDP), Peru (19.0 and 9.6 percent of GDP) and Taiwan (26.8 and 49.1 percent of GDP). Unless such differences can be convincingly explained (by public or corporate saving, for example)--and in this paper they are not—they cast doubt on the quality of the household cross-section data.

Do the Poor Save?

The article does not address the issue of whether the poor save, and the savings profiles do not provide a clear answer. Some savings profiles for the least educated group (as a proxy for the lowest income group) suggest that in Mexico the poor may have the capacity to save. Other profiles suggest they do not. Figure 15 (with no cohort effect) suggests a hump-shaped savings profile; figure 16 suggests dissaving around 1995, the year of the economic crisis, while such an effect is only slightly visible in figure 14 (with the assumption of a cohort effect). The opposite is suggested for Thailand, where the picture is reversed (figure 16), but where a sharp drop in dissaving in some years is suggested when a cohort effect is taken into account (figure 14). I hope future versions of the article will shed some light on this issue.

Linking Savings Data Analysis with Institutional Information

The capacity and willingness to save are determined by institutional characteristics, such as coverage by a public pension system and access to free basic education and health services. The current analysis does not use institutional differences to explain differences in savings profiles across countries. The graphical presentation uses only one concept of saving that approximates financial saving: disposable income minus expenditure (including expenditures on housing, health, and education). Other available savings data, based on different concepts of saving, exclude one or the other investment-type expenditure, but such data are not discussed. Linking institutional differences to differences among alternative savings definitions might help clarify some of the savings puzzles. Similarly, a more comprehensive discussion of the life-cycle profile might help explain the existence or lack of public pension schemes. In Thailand a mandatory scheme for the formal sector was introduced only in 1999, while in Mexico public pensions were in place during the entire period investigated (Social Protection Pensions Primer Papers).

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