

Comments on “ Accounting for Household Saving Rates in China”

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I. Summary of the Paper

- Major Question: Why Chinese people save so much?”
- Approach: To introducing housing into Bewley model with assumptions of an incomplete market framework where individuals face uninsurable idiosyncratic earning shocks.

O Major Results:

- Housing in utility is essential to account for the household saving rates in China.
- The change of housing market influence household saving rate slightly.
- A smaller minimum housing value and a less house-selling cost can both lead to a slightly higher saving rate because both of them implies more frequent housing transaction.
- While lessening the downpayment ratio can generate a lower saving rate.

- Homeownership preference has an apparent impact on homeownership ratio yet can not affect the household saving rate obviously

II. Further Issues to Consider

1. What's wrong with the higher saving in China?

○ If “Higher Saving → Higher (productive) Investment” → “Higher Future Production & Resulted Demand”

→ Nothing wrong with high saving

○ If “Higher saving → Higher housing investment (by speculative

motivation) → Lower Demand & Distortion of Markets →
Increased Int'l Imbalances & Financial Weakening

2. Housing Markets Matter!

○ Ex: Latest Global Financial Crisis

- The formation of Housing Market Bubbles & the Collapse of the housing bubbles → The collapse of the US financial system and the global financial crisis

○ Moral Hazards in the US mortgage loan market

- Improper credit check by the mortgage loan provider

- Risk pooling by securitizing toxic assets such as subprime MBS

3. The Concerns over the possible bubbles in the Chinese Housing markets

O Sources of Housing Market Bubbles

- Speculative Motivation in Housing Market targeting the arbitrage profits is the dominant → (Possible Herd Behavior in Home Purchasing including the impacts by foreign investors)
- Higher leveraged investment (purchase) in housing market → Much higher probability in bubble formation & resulted financial instability involved with mortgage loan. (Ex: 70%)

○ Very high preference for homeownership, Why?

- Higher preference for homeownership, just for cultural reason?
- Higher homeownership driven by speculative incentives based on the expectation for possible arbitrage profit?
- ➔ Larger probability for the formation of housing market bubbles & financial instability
- ➔ The paper shows that the higher housing ownership preference induces the Chinese housing markets somewhat vulnerable to bubble formation

4. Policy implications: Macroeconomic Policy Coordination Issues

- Macroeconomic Imbalance between China and the US
 - Too high saving → Too little domestic consumption → Increasing international imbalance in Current Accounts
- The necessity for policy coordination in reducing asset market bubbles (such as Housing market bubbles) and related financial market vulnerability due to the asset market bubbles
 - + (in addition to coordination in currency swaps (CMI) and other financial policy coordination)

5. Housing Purchase & Saving

- O Housing purchase is classified as Household Investment, a part of saving

- O Higher saving driven by high demands for housing?
 - Housing purchase is already a part of saving.

- O Household Investment, a part of saving, is flow concept, not a stock concept as Saving (How to straighten the possible conceptual structure)

6. Further Elaborations

- Closed economy model → To extend the model to a open market model including the foreign investors (speculators) targeting the arbitrage profits (such as many Korean speculators investing in Chinese housing markets.)

- To explain “Why the low income quintile 1’s homeownership is so high (75%), while they save little (9.7%)?”

- To Elaborate the structure of mortgage loan market in China
 - To check the market stability of mortgage loan market

- To check the possibility for toxic assets related to mortgage loan and related financial weakening