Saving Accounts: What Are They Worth?

The Standard and Poor’s 500 Index rose at an annual rate of 20 percent between May 1998 and June 1999. The personal saving rate—defined by the national income and product accounts (NIPA) as the ratio of the difference between disposable personal income derived from current production and personal outlays to disposable personal income—was negative for 10 of these 14 months and averaged negative 0.3 percent. So, many analysts have recently complained that this measure of saving does not accurately reflect the saving behavior of American households because it does not include realized capital gains in the definition of personal income, but does include the tax liabilities of such gains when calculating disposable personal income.

Recently, realized capital gains and the taxes paid on capital gains have indeed grown faster than personal income. Between 1959 and 1980, the ratio of realized capital gains to personal income was relatively stable and averaged 1.7 percent. Since 1980, realized capital gains have grown faster than personal income, so that by 1996—the last year for which such detailed information about realized capital gains and the taxes paid on them is available—the ratio was a little over 4 percent. Similarly, the ratio of taxes paid on capital gains to personal income averaged 0.5 percent during the two decades before 1980. The ratio quickly rose between 1980 and 1986 when it peaked at 1.5 percent. Then after falling for several years, it has since started to rise again and stood at 0.9 percent in 1996.

The chart shows three different measures of saving that incorporate adjustments for the effects of capital gains on personal saving. The lowest line is the published measure of the personal saving rate. The series immediately above the personal saving rate also adjusts disposable personal income by not subtracting taxes paid on realized capital gains. Although it has some effect on the saving rate, the difference between the two series is not dramatic. The gap was one percentage point in 1996, a small part of the decline in the personal saving rate during the last 10 years. The final series also includes realized capital gains as a component of personal income, and the effect is more dramatic. The difference between the published series and this inclusive series was nearly 4.4 percent in 1996.

However, the alternative measures have problems as well. They assume realized capital gains contribute to saving but unrealized capital gains do not. They do not show the overall financial condition of households because the measures do not consider liabilities. To the extent capital gains imply changes in the outlook for future economic conditions, the alternative measures blur the distinction between realized and expected economic activity. There are many measures of saving (e.g., p. 15). Each provides some insight about economic conditions, and each has shortcomings. Therefore, it is important to understand how they are constructed and their uses and limitations.

—Peter Yoo