



National Economic Trends



How We Measure National Saving

Economic analysts have a keen interest in measures of national saving because it determines in a fundamental way the nation's future living standards. On an individual basis saving represents an effort to accumulate wealth; on an aggregate basis it represents the resources available to increase the nation's capital stock over time. This linkage between saving and investment provides one of the vehicles through which a country boosts its long-term economic growth.

Ideally, we would want to measure saving net of allowance for capital consumption—called depreciation. Accurately measuring depreciation is difficult, however. As a result, analysts usually look at gross measures of saving and investment that include capital consumption. Many studies have found that gross measures are more closely related than net measures to economic growth anyway.

There are several ways to measure saving, but the method used in the national income and product accounts is the best known (see table). In this framework gross saving consists of: (1) personal saving, which is personal income (excluding changes in asset values) less consumer spending on goods and services and personal tax payments; (2) gross business saving, includes retained earnings, and is the largest component because it also includes capital consumption allowances; and (3) government saving, the sum of the federal, state and local budget surpluses. Both the household and government sectors contributed to the decline in gross saving as a percent of gross domestic product (GDP) in the first half of 1993. One objective of the recent budget act is to reverse the trend of government dissaving, boosting overall saving and making more funds available for investment.

— Kevin L. Kliesen

AVERAGE SAVING AND INVESTMENT AS A PERCENT OF GROSS DOMESTIC PRODUCT

	<u>1983 to 1992</u>	<u>1993: 1st half</u>
Gross Saving	<u>14.0%</u>	<u>12.1%</u>
Personal saving	4.0	3.1
Gross business saving	13.0	12.9
Government saving	-3.0	-3.9
+Statistical discrepancy	<u>-0.1</u>	<u>0.4</u>
=Gross investment	<u>13.9</u>	<u>12.5</u>
Gross private domestic investment	15.9	13.9
Net foreign investment	-1.9	-1.4

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Views expressed do not necessarily reflect official positions of the Federal Reserve System.

National Economic Trends is published monthly by the Research and Public Information Division. Single-copy subscriptions are available free of charge by writing Research and Public Information, Federal Reserve Bank of St. Louis, Post Office Box 442, St. Louis, MO 63166-0442 or by calling 314-444-8809. Information in this publication is also included in the Federal Reserve Economic Data (FRED) electronic bulletin board. You can access FRED with a personal computer and a modem at 314-621-1824.