

Savings Rates in the United States: Macroeconomic Predictors of Frugality

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Abstract

For over two decades United States was known to be a nation of “shop until drop.” That is, since the early 1980s U.S. personal saving rate declined steadily from a high of 10.9 percent in 1982 to a low rate of 1.4 percent in 2005. This downward trend represented a dramatic change in the behavior of personal saving rate because during the preceding three decades, the personal saving rate had experienced an upward trend. While in the 1950s the average personal savings rate was 7.94 percent, the 1960s and 1970s had witnessed the average personal rates climb to 8.29 and 9.59 percent, respectively. More recently, however, and especially around the onset of the current recession, personal saving rate seems to have staged a turnaround where it registered 1.7, 2.7, and 4.3 percent for 2007, 2008, and 2009 respectively. The purpose of this paper is to examine the U.S. personal saving rate in order to empirically investigate whether the determinants suggested by the economic theory can account for the observed behavior of this variable. The findings can help in formulating a more effective policy response in dealing with business cycle fluctuations in economic activity.