Japan’s recovery is complicated by a decline in household savings

By Jonathan Soble
March 19, 2015 – *The New York Times*

Takazumi Fukuoka should be exactly what Japan needs to get its economy moving again.

Mr. Fukuoka, an art director at a small online media company, has an active and free-spending social life. A part-time D.J., he often buys records in the music shops of Tokyo’s trendy Shibuya district. He eats and drinks out regularly, too.

But his salary has barely budged in recent years. So he is spending every yen he earns.

“I’m not saving,” said Mr. Fukuoka, 30. “There are people my age who are married with kids and have their own houses, but I don’t have any of that.”

It is an increasingly common refrain in Japan — and one that complicates the government’s efforts to revitalize the country’s economy.

The country’s savings rate, long one of the highest in the world, is now below zero. In short, Japan’s citizens are spending more than they earn. By comparison, the rate in the United States, where consumers have a reputation for living beyond their means, is on the rise, hitting 5.5 percent in January.

The reversal is stark. For decades, many Japanese hoarded cash, a habit that took hold in the years after World War II, when government protections like unemployment insurance and public pensions were scarce.

Today, Japan is in a bind. Prime Minister Shinzo Abe is trying to inject life into the lackluster economy, in part by getting people to spend more. Yet stagnant wages mean many cannot do so without shortchanging their futures. Japan’s large aging population is already drawing down nest eggs, and younger people aren’t filling the void.

A particularly pressing concern is the sharp increase in so-called zero savers — those with little or no financial assets, like Mr. Fukuoka.

About 40 percent of unmarried adults are zero savers, and 30 percent of families are, according to the Central Council for Financial Services Information, a research group affiliated with Japan’s central bank. A decade ago, the ratio for both groups was about 10 percentage points lower.

Like the Japanese population as a whole, Kyoko Inadome is a former saver. During college, she put away enough money from part-time jobs that she was able to move to England, pay for a second diploma, then return home to Japan with a nest egg worth 2 million yen, or about $17,000.

“My money went further than I thought,” she recalled. “I worked a lot and set aside everything I could.”

A decade later, Ms. Inadome, 40, a music therapist, says her bank balance has hardly changed. She moved out of her parents’ house only last year.

Japan’s drop in savings has coincided with an erosion in pay and job security for many workers, especially younger ones.

On Wednesday a group of prominent companies, including Toyota and Panasonic, announced their biggest pay increases in years. But they apply to an increasingly rare kind of worker: unionized, full-time employees at blue-chip corporations.

Many who don’t belong to that privileged group aren’t spending more; they just have less to set aside. Now, there are growing fears about the ability of an overburdened pension system to support them when they reach retirement age.

“A lot of people have vague worries about the future,” said Mitsuaki Yokoyama, a financial planner and author of a series of best-selling books on how to save money.

Mr. Yokoyama’s most popular books promise to help readers with low incomes stabilize their finances. In the past, his core audience was people in their 50s and 60s who were planning for retirement. “Now there are more young people,” he said. “Their salaries aren’t going up and they don’t know what to do.”

Personal savings were a main ingredient in Japan’s postwar economic miracle. Through the 1970s and 1980s, the government encouraged people to save with tax breaks and other incentives. The goal was to secure plentiful domestic funding for the country’s expanding industries.

“There were a lot of policies that promoted savings,” said Arthur Alexander, a professor at Georgetown University who follows Japan’s economy closely. “They’re all gone.”

Japanese households saved nearly a quarter of their incomes in the mid-1970s. While the savings rate declined after that, it remained persistently higher than in other countries even through the 1990s.

The decline has accelerated recently, as baby boomers have retired and begun to live off money they set aside during their working lives. It’s a vast demographic group — a quarter of the population is now over 65.

Wages for those who are still working have been stuck at the levels of two decades ago. And more workers are on temporary contracts that don’t entitle them to traditional bonuses — paid twice a year and at retirement, a system that helped past generations to save.

“Between my wife and I, we have two incomes, so I feel like we should be able to save more,” said Kozo Shimoda, 37, a contractor who manages the online shopping site of an apparel company. “But our savings isn’t increasing, so I don’t feel satisfied or secure.”

The national household savings rate slipped to minus 1.3 percent in the last fiscal year, according to a government report issued in December. The situation adds an extra layer of complexity to the task facing Mr. Abe.

Japan isn’t about to run out of spare cash soon. Thanks to the high savings rates of the past, about 1,400 trillion yen, or $11.5 trillion, of household financial assets remain tucked away.

And Japanese businesses have replaced households as avid hoarders of cash. In an era of slow growth, they see few investment opportunities, so profits simply pile up in the bank. Corporate cash reserves now amount to about 40 percent of the Japanese stock market’s value, twice the ratio in the United States.

One goal of Mr. Abe’s economic program, known as Abenomics, is to get this idle cash back into the hands of individuals — and ultimately coursing through the economy — in the form of wage increases or higher returns to investors. The prime minister has lobbied hard on the pay issue, brokering meetings between executives and union leaders and dangling the prospect of corporate tax cuts as a reward for wage increases.

Most experts say it would be a good thing if businesses hoarded less and spent more. But Mr. Abe’s aim is a delicate one, because the same pile of savings is supporting Japan’s huge government debt.

Naohiko Baba, the chief Japan economist at Goldman Sachs, worries what will happen if both households and companies turn their backs on saving. At the equivalent of two and a half years of economic output, Japan’s debt load is the heaviest in the world. Yet about 90 percent of the debt is held locally, meaning that Japan is, in effect, lending to itself.

That is one reason, economists say, that Japan has avoided the kind of bond market pressure that has sent less indebted countries like Greece into crisis. Mr. Baba calculates that Japan could run short of the savings it needs to fund the debt locally by about 2020. After that, it would need to turn to foreign investors — a potentially destabilizing shift.

“Once we have to rely on foreign investors to finance the debt,” he said, “that could be the beginning of a disaster for Japan.”