Inter-American Development Bank
Office of the Chief Economist
Researcb Netwrok Working Paper Series
Documento de Trabajo R-328
March 1998

Trade Liberalization and Private Saving, the Spanish Experience: 1960-1995

By
Michele Boldrin, Juan Manuel Martin Prieto

Note: This papers is not currently available on PDF format. If you would like to receive a printed copy of this paper, please send an e-mail to: oce-red@iadb.org.

SUMMARY

This paper provides an interpretation of the evolution of Spanish private and national savings over the period 1960-1995.

During these 35 years private and national saving rates oscillated widely from a very high level in the sixties to historical minima in the early and middle eighties to a strong recovery in the more recent years. In the meanwhile Spain transformed itself from an autarkic, underdeveloped and dictatorial country into an advanced, open economy with a fully democratic political life.

First we show that the apparent long-run reduction in Spanish saving rates is mostly due to a change in relative prices and to the choice of what, in our view, is the incorrect deflator. When Spanish real private savings are measured by using the deflator for the price of capital they appear to behave as a stationary, albeit highly volatile, time series relative to private disposable income.

We find that a stable ``saving function" can be derived from first principles and estimated using annual macroeconomic data. We adopt a traditional model of intertemporal optimization by a representative agent, facing a complete set of borrowing/lending opportunities and an exogenous income process. We use a ``habit formation" utility function, to explain the crucial feature of the data, i.e. the strong and positive impact that innovations in the growth rate of income (either national or private) have on saving (either national or private).

We treat the three trade liberalizations episodes which occurred during this period, as sequences of shocks that changed the growth rate of income, and the democratization experience as a sequence of shocks that changed the saving behavior of the public sector its fiscal levy on the private one. We also show that when these two crucial variables are taken into account (innovations in income and growth rate of the fiscal pressure) the trade reforms do not seem to have other systematic effects upon saving rates. The only other important economic variable, which retains explanatory power for the growth rate of private saving is the distribution of income between labor and capitalists/entrepreneurs as measured by the growth rate of the gross profit margin.

We also test the stability of our set of regression equations over the two subperiods 1964-1985 and 1986-1995 and the results are very encouraging.

From the viewpoint of economic policy our research suggests the following:

- Saving growth is determined by income growth. Hence the policies that most favor national saving are those that most favor a long-run increase in the growth rate of national income.
- Trade and financial liberalizations do not appear to modify the long-run structural relationship between income growth, public saving and private saving.
- In particular, we have found no evidence that trade and financial reforms should generate a permanent (or even temporary) reduction in the national and private propensity to save. Therefore we find no reason to support a policy of ``controlled'' or ``limited'' financial liberalization on the ground that this would help avoiding unjustified and damaging ``consumption booms''.