The New York Times

Room for Debate

Higher Savings, Higher Investment

Anja Manuel *is a partner at The RiceHadley Group LLC, a strategic consulting firm, and a visiting scholar at Stanford University's Center for International Security and Cooperation.*
NOVEMBER 7, 2010

Many economists now believe that, by 2015, India will start outpacing China's annual G.D.P. growth rate of 8.5 to 9.5 percent. A number of trends in India lead to this conclusion, including a young, increasingly educated labor force, relatively few retired people to care for, the structural reforms the Indian government continues to undertake, and increased infrastructure spending.

But there is one striking factor the United States could learn from as it emerges from its own recession: Indians save approximately 33 to 36 percent of their total G.D.P., compared with approximately 11 to 13 percent of G.D.P. for the United States. (The Chinese save a whopping 51 percent.) Why does this matter?

Although consumer spending can help an economy emerge from recession in the short run, for long-term prosperity, a higher savings rate is helpful. More money saved in U.S. banks means more money available for investment, which then leads to higher growth.

There are good reasons that Indians save more than Americans: India has no safety net, no unemployment insurance, no real medical insurance, no Social Security. In Western countries, some safety nets exist, thus decreasing the incentive to save.

Nevertheless, Americans have lots of reasons to start saving now. We have lost huge amounts of wealth in the stock market in the past few years, and many people, especially baby boomers ready for retirement, are over-leveraged. Social Security payments already exceed inflows, threatening its future. Large U.S. government deficits will likely lead to higher taxes in the future. For these reasons, India's high savings and investment rates may be worth emulating.