HIGH CHINESE HOUSEHOLD SAVING ROOTED IN THE GREAT FAMINE

The experience of the Great Famine of 1959-61 is an important part of the explanation for the strikingly high level of household savings in China today. That is one of the findings of research on Chinese savings rates and their historical roots by Heng Chen and Maëlys de la Rupelle, to be presented at the annual congress of the European Economic Association in Geneva in August 2016.

The researchers find that in Chinese counties where the Great Famine was the most severe, rural households save a higher share of their income than elsewhere. Analysing data on more than 8,000 rural households surveyed in 2002, they show that the household saving rate is higher in places that faced a higher mortality rate during the Great Famine.

They estimate that a typical increase in famine mortality\(^1\) raises the saving rate by five percentage points, a sizeable impact given that Chinese households saved around 25% of their disposable income in the early 2000s (compared with 7% in the European Union, 5% in the United States and 10% in Mexico). The effect is particularly strong for the poorest households.

The study also shows that the experience of the Great Famine might have affected values and norms. Analysing data collected in 1990, 2001, 2007 and 2012,\(^2\) the researchers find that when respondents are asked about the important quality to be transmitted to a child, they are much more likely to mention ‘thrift, saving money and things’ if they live in a province that faced a higher mortality rate during the Great Famine.

The effect is stronger for the individuals that were between two and ten years old during the Famine, and is still significant for individuals born after the Famine.

This is in line with the personal experience of one of the authors of this study, whose mother was a kid during the Great Famine. She was concerned about food and fear of its absence; she was extremely careful with expenditures; and she repeatedly mentioned the Great Famine when educating kids not to complain about food quality and quantity.

Finally, the authors provide evidence that the amount of bank deposits reacts faster to economic growth in counties that were the most severely affected by the Great Famine. Analysing data for 1,624 rural counties from 1997 to 2010, they show that if bank deposits are growing when GDP increases all across China, this relationship is stronger in places more severely affected by the Famine. Such a result might have macroeconomic implications, if China’s future development calls for increased internal demand and reduced households’ savings.

One important challenge the authors face is that the severity of the Famine could reflect prior regional differences related to saving behaviour. The authors use three tools to

\(^1\) An increase by one standard deviation. The famine severity is measured by the gap between the number of births during the Famine years in a given county and what it was before.

\(^2\) The four waves of the World Value Survey that they use total 6,000 individuals.
deal with that concern:

- First, they take into account pre-famine differences across provinces in the 1950s, using historical data on GDP or grain output.
- Second, they control for numerous characteristics of the counties, related to soil, weather, development, with the help of very accurate satellite data.
- Last, they explore local variations in famine severity that are not due to local characteristics likely to explain household propensity to save.

Overall, their research show how historical events shape norms and institutions and are likely to have sizeable macroeconomic impacts decades later.

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The Great Famine and Household Saving in China
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