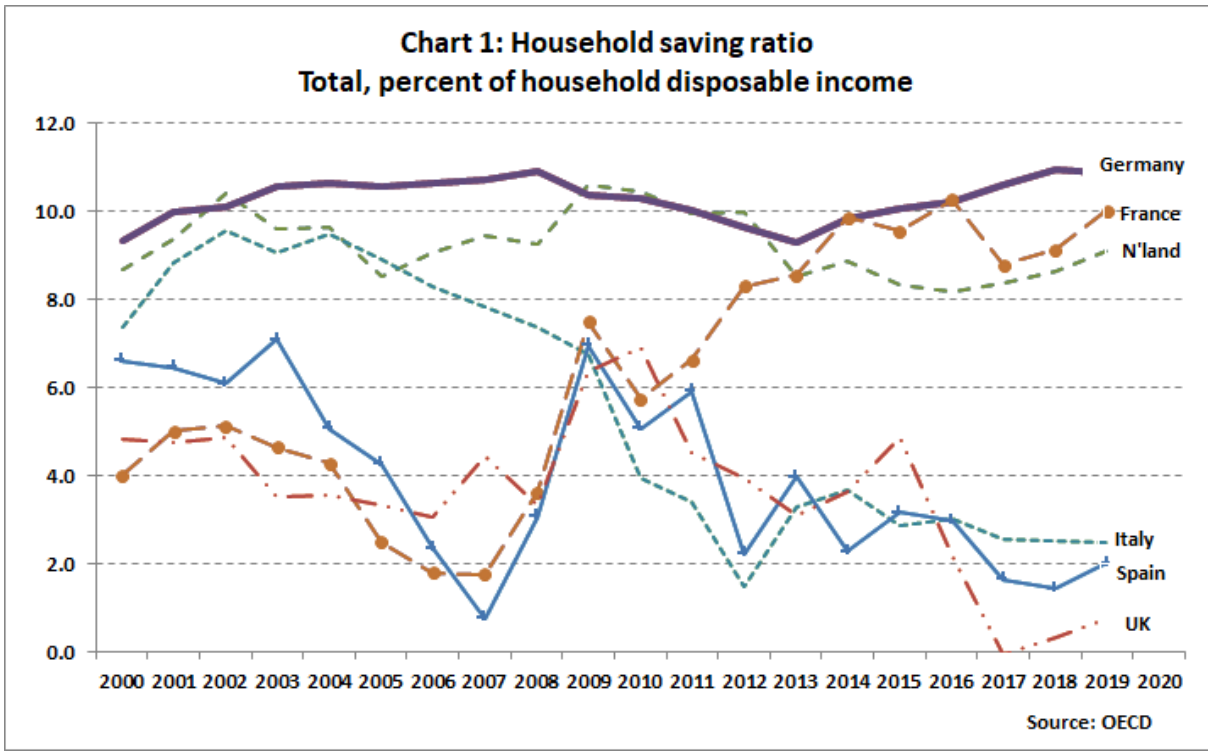
The Myth of the Great German Saver[1]

Germans are often depicted as frugal and disciplined in the way they approach money. A commonly used image of this is the fabled Swabian housewife – a homemaker from particular regions and cultural groups in southern Germany. Swabians are famed from being frugal and pragmatic when it comes to money and spend less than they earn.

Official data seems to support this perception. Comparative national accounts data for many nations reported by the OECD repeatedly show Germany's household saving ratio hovering around 10% for the 20 years to 2019. Although Luxembourg, Switzerland and Sweden report higher saving ratios, the persistence of such a high savings ratio by a large, wealthy nation stands out when compared with other dominant nations such as the USA and the UK.



Germany's high saving ratio also stands out in Europe when compared to countries such as Italy, Spain and Portugal. Given this, it is understandable how a narrative developed, especially in the aftermath of the global financial crisis of 2008-2009 that frugal Germans were bailing out spendthrift Southerners. This narrative has been repeated in the Covid crisis of 2020 and 2021. The narrative supports a moralistic and nationalistic depiction of countries within the European Union. A typical description given in newspaper headlines praises the sensible financial approaches of northern European countries, including Germany, while chastising countries in the south, such as Spain and

[1] The title of this paper had been chosen long before writing. During writing, I found a 2015 post on the Medium website by Karl Whelan with the similar title of "The Myth of the Special German Saver". His article covers similar but different ground. See https://medium.com/bull-market/the-myth-of-the-special-german-saver-718102ae1fd2

Italy, as lazy and spendthrift. An example of this narrative can be seen as recently as May 2020 when the Dutch magazine Elsevier carried a front cover contrasting characterisations of hard working people, presumably from the north of Europe, with characterisations of laid back people presumably from the south of Europe.

Elsevier Weekblad
29-05-2020 Elsevier Weekblad

An English translation of the main text is “Why Merkel and Macron’s plan to give away 500 billion euros is wrong. Not a penny extra to Southern Europe.

Source: https://www.majorcadailybulletin.com/news/local/2020/05/30/67695/says-spain-italy-don-need-covid-recovery-aid.html

There is only trouble with this depiction. It is wrong. Individual Germans and German households face many of the same difficulties as people and households elsewhere in Europe. Survey data and anecdotal evidence suggests many people in Germany have a great deal of trouble finding enough money to save. This stands at odds with the high savings figures recorded in the national accounts.

Two factors appear to play a key role in the discrepancy between the aggregate figures reported in national accounts and reports from the individuals. First, the distribution of savings and wealth in Germany are highly unequal. Second, Germans face particular difficulties compared with other countries when it comes to providing for retirement. This second difficulty suggests that the typical German saves largely out of necessity rather than from a moral position. Swabian by necessity rather than Swabian by choice.

This paper will concentrate on four things to highlight the discrepancy between myth and reality. First, it will outline snippets of information that suggest many Germans find saving difficult. Second, it will outline the highly uneven distribution of savings and wealth within Germany. Third, it will look at the difficulties German households face in saving for retirement. Fourth, it will conclude by considering the potential dangers associated with the myth of the great German saver.

1. Many Germans find saving difficult

Consider asking someone "Do you have any savings?" This question is not as simple as it seems. The person may have money in their bank account now but may not have any by the end of their pay cycle. The individual may not have savings but they may have savings in a joint account with other household members. To get more technical, some may be paying off debt and may not have money in a bank account now but will have in a few months when the debt is cleared. Despite these difficulties, people can be trusted to have a good overview of their finances and answer appropriately to their situation.

When talking of savings, it is also important to consider the way the term is used in everyday discussion and compare it with the way that economists and national statisticians think about it. . In everyday parlance, "having savings" can be considered as having money in a bank account that is readily available. It is a stock concept. Yet people can talk of "building up their savings", which is a flow concept. This second concept is much closer to the way that economists and national statisticians consider saving, which is usually defined as the difference between income and expenditure. To the economist and statistician, savings accumulate over time to build wealth. Being aware of these differences in the everyday and technical meaning of savings will be useful in understanding how narratives have developed around the financial behaviour of people in different countries.

One way to think about the narrative of the Germans being great savers would be to ask them whether they actually have any savings. If Germans as a group were truly great savers, it could be expected that they would consistently self-report more often than people in other countries that they have savings. That does not happen.

Over the eight years from 2013 to 2020, ING bank commissioned an online surveyed of around 1,000 people in around 12 European countries on their attitudes to saving. Each year, people were asked "Do you have any savings?" Savings were defined in a way that it was clear that this meant money at a bank that could be accessed quickly. Analysis of the answers focused on those who answered that that they did <u>not</u> have any savings. These were potentially financially vulnerable people and households. A consistent finding over the eight years was that respondents from Germany were as likely, if not more likely, than people in other countries to answer that they had no readily available savings. This is shown in table 1 below.

Table 1: Percent of respondents indicating they do not have readily available savings								
	2013	2014	2015	2016	2017	2018	2019	2020
Germany	30%	30%	33%	32%	32%	29%	33%	29%
France	24%	26%	34%	28%	23%	24%	29%	30%
Netherlands	19%	19%	19%	21%	23%	24%	20%	20%
Italy	26%	33%	36%	35%	26%	25%	24%	28%
Spain	29%	31%	39%	34%	25%	24%	26%	27%
UK	28%	27%	24%	26%	24%	27%	31%	23%
				Source: ING International Survey, various years				

Internet polls that form the basis of these figures are rightly treated with scepticism by statisticians[2]. For example, despite the best efforts of polling companies, the samples generating responses have no guarantee of being adequately representative of the target population, and people can interpret questions in different ways. Nevertheless, the repeated result indicated that respondents from Germany were just as likely to declare a savings deficiency as respondents in other countries seemed curious. Indeed, looking closely at the responses across all countries, it was possible to make a weak case that respondents from the southern European countries of Spain and Italy were more secure in their savings.

Another snippet pointing to a savings shortfall occurred in 2013 with the release of the first batch of analysis from the ECB's Household Finance and Consumption Survey (HFCS)[3]. The analysis of the data collected from 15 countries in 2010 showed that the median household in Germany was less wealthy than in Spain and Italy.

The release of this data occurred as the European Union was continuing to provide financial support to several countries in the south of Europe following the global financial crisis of 2008-2009. The suggestion that Germans were poorer than Spaniards and Italians provided fodder for those opposed to the financial support.

Explanations for this surprising result concentrated on two factors. One was that Germans were less likely to own property and other risky assets than people in other countries. Frugality and caution came with a (perhaps justified) price. A more persuasive explanation was that the distribution of wealth across Germany was more unequal than elsewhere. Consequently, the median household wealth figures hid a great deal of variability in the finances of German households. The Swabian housewife may not be representative at all.

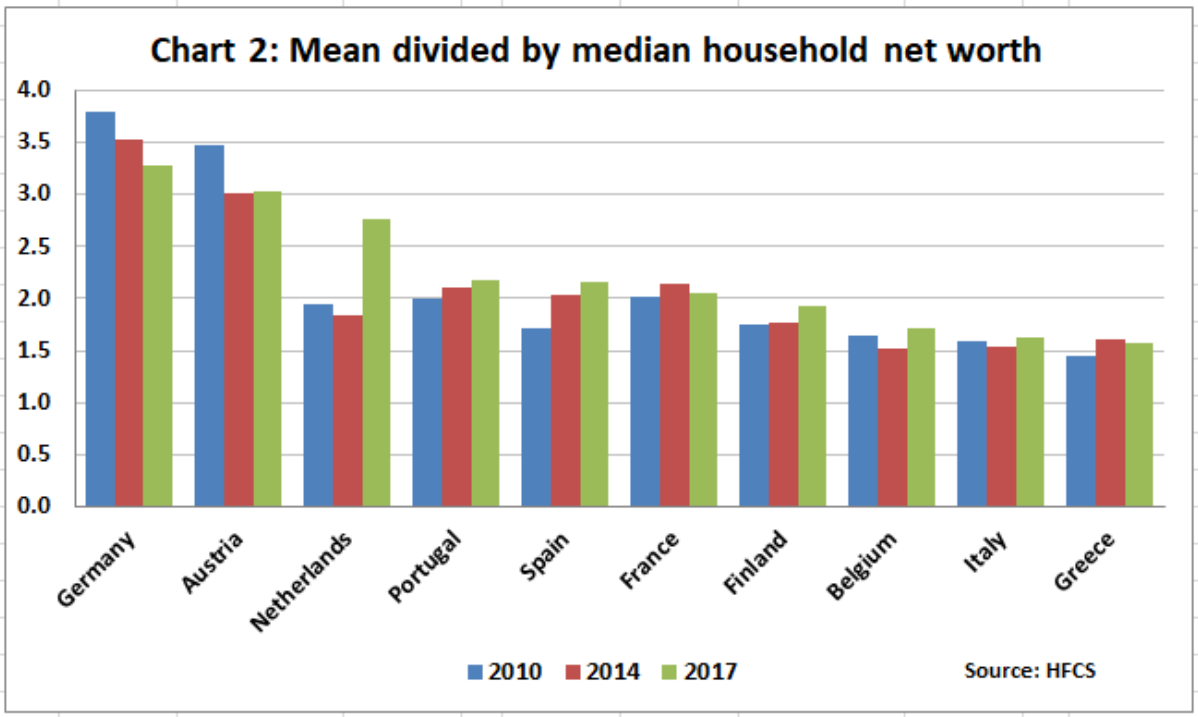
2. The unequal distribution of saving and wealth in Germany

Analysis of the HFCS data quickly demonstrated the high level of wealth inequality in Germany compared to other European countries. A VoxEU column in April 2013 (Paul De Grauwe and Yeumei

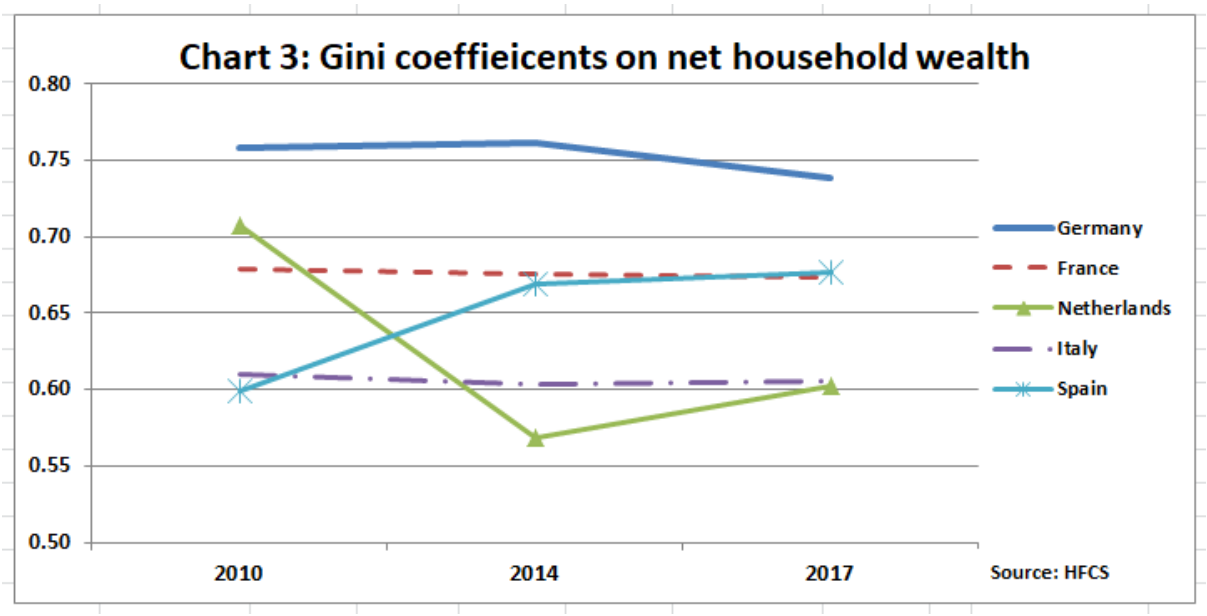
[2] See for example David Spieglhalter, who writes in his 2019 book "The Art of Statistics: Learning from Data" p328, Kindle location 3895.
[3] See for example this April 2013 report from CNBC https://www.cnbc.com/id/100629759

Ji 2013) calculated the ratio between mean and median net wealth as a proxy for wealth inequality for several counties. The German ratio of just under 4 was noticeably higher than other countries except Austria. Further, when wealth owned by the highest 20% by income class was compared with wealth owned by the lowest 20%, the ratio stood at 74 times for Germany, well above that in any other country. De Grauwe and Ji commented "Judged by this criterion, Germany has the most unequal distribution of wealth in Eurozone".

Two further waves of the HFCS have been carried out since 2010 - in 2014 and 2017. Recalculating De Grauwe and Ji's figures with these later waves shows little difference, as is shown in the graphs below. When considering either measure, the distribution of wealth in Germany remains, on this measure, the most unequal in Europe.



The HFCS also contains calculations of inequality measures such as the Gini coefficient. These are shown for the three waves for several countries. On this basis, Germany once again has the highest level of wealth inequality across Europe and the ratio has fallen only slightly from 0.758 in 2010 to 0.739 in 2017.



This suspicion that the saving behaviour of households differs greatly across Germany was confirmed in a 2016 paper based on 2013 data from the Sample Survey of Household Income and Expenditure (in German: Einkommen-und Vebrauchsstichprobe or EVS) of 40,000 households (Spath and Schmid 2016). The authors found that the saving rate was negative for the lowest three income deciles, and rose from 0.8 to 5.4 in the fourth to seventh deciles. Only at the eighth decile and above did the saving ratio begin to equal and then surpass the 10% rate commonly cited when quoting national accounts household saving ratios. Spath and Schmid noted "The upper 20 percent of the income distribution account for about 80 percent of total household savings in 2013. The upper vingtile makes up about 40 percent and the top income percentile about 15 percent of total household saving." (pp 10-11).

It would be tempting to think that data on wealth and saving inequality in Germany is particularly affected by ongoing adjustments between the 1990 unification of the former East and West Germany. This does seem to have an effect but it is diminishing. A 2019 Deutsche Bundesbank discussion paper outlined a procedure to generate wealth estimates for regions in the former east and West Germany and found "Even 25 years after German reunification, there is clear dividing line at the former border with respect to private wealth. However, the wealthiest planning regions in the east report higher private wealth figures than the western German regions with the lowest private wealth estimates." (Kreutzmann, Marek, Salvati and Schmid, 2019, p19). The finding that household wealth in some regions in the East is now higher than in some regions in the West may suggests the effect is not overwhelming. Another reason to consider this effect is not substantial comes from a 2020 paper looking at the distribution of wealth in Germany from 1895 to 2018. It reported "In 1993, households in the top 10% were about 50 times richer than in the bottom half. Today, they are 100 times richer." (Albers, Bartels and Schularick, 2020) The authors also seem to suggest the gap could be wider. They warn that official statistics underestimate privately held business and real estate wealth.

It is no surprise that wealth is unequally distributed across Germany. It has been commented on many times and was commented on during the 2017 German federal elections[4]. The surprise is the extent of this inequality, it's persistence, and the likelihood that this will not change in the immediate future.

3. The particular difficulties of saving for retirement in Germany

The inequality in the distribution of German wealth provides part of the answer to the contradiction between the national accounts data and reports from individuals and households. However, it is not sufficient. In general, Germans seem to have a good standard of living and scores well on the OECD Better Life Index (OECD 2020).[5] The high official saving rate could also be affected by technical issues associated with the way in which economists and statisticians define savings.

In the national accounts, savings is the difference between income and expenditure. More exactly, it "the difference between disposable income (including an adjustment for the change in employment related pension entitlements) and final consumption"[6]. The adjustment for employment related pensions mentioned in this definition raises some potentially interesting questions. If many Germans are receiving employment related pension entitlements, they may be saving by proxy rather than by making an active choice to put money aside each pay period.

Like people in many other countries, Germans save for retirement using a typical three pillar system combining compulsory government, company sponsored, and personal arrangements. [7] The main difference in the German system is that the compulsory government system misses many people and the benefits offered by the state on retirement are low compared with other countries.

The OECD's 2019 edition of Pension at a Glance (OECD 2019) had a short section comparing the German pension system with that of other countries. It noted the following:

- Germany is one of the few countries that does not provide mandatory pension insurance for all self-employed workers as opposed to employees … A growing number of workers engage in new forms of work, such as platforms will face bleak pensions prospects due to lack of coverage and low contributions.
- German women suffer from the largest gender pension gap among OECD countries (46%).
- Even after a full career in standard employment, Germany's pensioners face comparatively low pensions.

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[4] See for example, this report from the August 2017 Financial Times https://www.ft.com/content/db8e0b28-7ec3-11e7-9108-edda0bcbc928.

[5] The OECD's 2020 Better Life Index reports that "Germany performs well in many measures of well-being relative to most other countries in the Better Life Index. See https://www.oecdbetterlifeindex.org/countries/germany/ .

[6] See the definition associated with the tables and graphs from the OECD database https://data.oecd.org/natincome/saving-rate.htm .

[7] An up to date description of the German pension system is available at the website Expatica.com. See https://www.expatica.com/de/finance/retirement/pensions-in-germany-831124/ . A detailed description of the public pension system is available from the OECD at https://www.oecd.org/els/public-pensions/PAG2019-country-profile-Germany.pdf .

This relative paucity of the German pension compared to other countries in Europe system is supported by the net replacement rate shown below[8].

Table 2: Net pension replacement rate for average earnings. Selected countries.	
Germany	51.9%
France	73.6%
Netherlands	80.2%
Italy	91.8%
Spain	83.4%
UK	28.4%
Source OECD Pensions at a Glance 2019	

If provision for retirement by the German state is scant, many people may be relying on their employment based pension (the second pillar) to provide an income in later life. According to the website Pension Fund Online, 60 per cent of people who were employed and subject to social insurance contributions in 2015 were active members of an occupational pension scheme. Many of these schemes have characteristics of a defined benefit scheme, which provides an income for members on retirement. However, when accounting for any defined benefit, the technical notes for the 2008 System of National Accounts (SNA) notes that "the employer's contribution should reflect the increase in the net present value of the pension entitlement plus costs charged by the pension fund minus the employee's own contributions." (OECD 2015 page 93) As interest rates have fallen to historic lows over successive years, it is possible that this may be forcing an increase in the net present value of the defined benefit funds and effectively increasing the implied income of German individuals. A higher income in this sense will lead to higher saving ratio.

There are also studies suggesting that state provision of retirement incomes can offset other forms of saving by households and individuals. A 2020 ECB Working Paper (d'Addio et al 2020) looking at the interaction of pensions and household savings and its effect on cross country differences in saving behaviour across Europe found that there were "significant displacement effects of mandatory pension wealth on non-pension financial wealth at the mean" and there was "heterogeneity in the mean savings offset depending on age, risk attitudes and country." The calculations in this paper show that, on average one dollar of additional mandatory pension wealth (that is the rights to state pension at retirement) reduces financial wealth of households (e.g. holdings financial assets such as voluntary pensions, investment and bank deposits) by 53 cents. The calculation at the country level (see table 2c of the paper) show Germany has the highest offset between pension wealth and financial wealth of the seven countries studied.

If state provision for retirement is scant and there is an offset between pension and non-pension wealth, then it would be logical to expect that households in Germany were more inclined build up

[8] The net replacement rate is a measure of the disposable income of individuals in retirement in comparison to when they are working. It reflects both the gross pension payment, taxes and any other social security payments. As a result, it matters more to individuals than the gross replacement rate. The figures in the table reflect the position of an average earner with a full contribution history. For the countries listed, there was no difference between men and women but for some countries, gender differences exist.

voluntary pension wealth than in other countries. This is indeed what is recorded in all three waves (2010, 2014 and 2017) of the ECB Household Finance and Consumption Surveys. As the table below shows, of the 15 countries surveyed in all three HFCS waves, the percentage of households in Germany that have voluntary pension or whole of life insurance (a form of pension provision in some countries) is higher than in any other country. Across all three waves, these assets account for around 25% of the total financial assets of households in Germany.

Table 3: Percent of households which have voluntary pensions

	2010	2014	2017
Germany	46.5%	46.3%	43.2%
France	37.5%	38.5%	38.4%
Netherlands	44.4%	35.3%	26.4%
Italy	14.1%	9.3%	8.2%
Spain	24.5%	22.9%	23.4%

Source: HFCS

There is a good case to argue that saving retirement is an important factor contributing to the persistently high aggregate saving ratio recorded by Germany.

4 The potential dangers of the misleading narrative of the great German saver

One of the definitions of a myth is "a fiction or half-truth, especially one that forms part of an ideology"[9]. If a group believes people behaviour in a certain way, those who do not can be seen as failures. The belief or ideology can make it difficult to understand why some fail to measure up.

The difficulty that many people in Germany have in saving must make life difficult for them. Matthew Klein and Michael Pettis argue in their book "Trade Wars are Class Wars" (Klein 2020) that a belief in the requirement of a country to have trade and budgetary surpluses contributes policies that unnecessarily harm the less powerful in society. For Germany, they note the obsession for the schwarze null (black zero) in the German federal budget. This has required a restrictive approach to fiscal policy dating back to 2003 when the Agenda 2010 and the Hartz labour market reforms began to be discussed and then implemented in 2005. These reforms led to some lower taxes, a reduction in some forms of social security and less generous unemployment benefits. The effect of these changes has been a squeeze on incomes for many people. Klein and Pettis note:

"In the 1990s, fewer than 40 percent of Germans aged fifty-five to sixty-four had jobs. The proportion steadily rose after 2003 and is not above 70 percent. When forced Germans were able to find work. But the jobs paid so badly that workers were often worse off than if they were on the dole. The share of Germans claiming they could not meet an unexpected expense jumped from 25

[9] See Myth - definition of myth by The Free Dictionary

percent to 41 percent just one year later once Hartz IV had come into effect. As of 2017 more than 30 percent of Germans felt incapable of meeting an unexpected expense. ” (p. 153)

These observations fit with those earlier in the paper. Many Germans find it difficult to save simply because they do not have much money.

These observations should not be taken as an indication that Germany is a poor country. DeGrauwe and Ji noted at the time they responded to the first stories in 2013 about “poor Germans” that we should not confuse household wealth with the wealth of a nation. They noted that “a significant part of a nation’s wealth can be held by the government or corporate sector and not the household sector.” The calculated the domestic capital stock per capita from several European countries and found that the northern European countries (with Germany in second place behind the Netherlands) were the wealthiest countries in the Eurozone.

Germany is a rich country. That does not mean that all of its people are rich enough to be able to save. Other countries may want to be more like Germany. If so, they should do so in the knowledge that many German households find it difficult to save.

Ian Bright
15 August 2021

(Word count: 3,478)

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