

# Bubbly Saving<sup>1</sup>

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### *Abstract*

We present a theory to explain why some countries like Greece and U.S. undersave while some countries like China and Japan oversave during the housing bubble era. It is found that a household with a speculative saving motive under- or over- saves depending on the degree of distortion of housing policy and financial market. The distortion is measured by the household's human capital, expectation on the increase of housing price, the down payment and the limit of debt outstanding. The speculative saving motive hypothesis first presented here is supported by the evidence from panel provincial data during 1995-2010 and individual data in 2005 from China. The bubbly housing price and the interest payment of loan especially in urban sector significantly raises the saving rate in cities as well as nationwide after controlling for the life cycle and the other related factors. Therefore, this paper contributes a new insight not only to the literature on why there is a saving consumption imbalance issue domestically and globally, but also to the policies on how to overcome the issue of shortage of domestic demand in current China as well as how to prevent against bankruptcies in U.S. and EU economies after the bubble crash.

*JEL classification:* D11, D12, E21, E22, G12, G18, O16, P34

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