

# Understanding the Decline in the Japanese Saving Rate in the New Millennium\*

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## Abstract

This paper investigates why the Japanese household saving rate, which fell from the late 1990s to the first few years of the new millennium, suddenly stabilized after 2003. Analyzing income and spending data for different age groups, we argue that this is explained by Japanese corporate restructuring prompted by the 1997 financial crisis and the resulting labor income decrease being concentrated in older working households. We believe two important changes in income distribution are associated with this mechanism. First, the negative labor income shock, which was mostly borne by the younger generation in the initial stages of the “lost decade” finally spread to older working households in the late 1990s and early 2000s. Second, there was a significant income shift from labor to shareholders associated with corporate restructuring during this time. This resulted in a decline in the wage share, so that the increase in corporate saving offset the decline in household saving.

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