

# Marriage, Savings, and Housing Prices

## Why Do the Chinese Save So Much?

Shangjin Wei in Forbes Feb 2, 2010,01:10am EST

Much attention has been directed toward China's high savings rate. Not only is the savings rate disproportionately high compared with virtually every other country, but it directly impacts China's current account surplus and the U.S. consumer deficit. When national savings exceeds investment, the excess savings shows up in China's current account surplus.

Given its far-reaching effects, both private sector analysts and policymakers have attempted to trace the causes of China's high savings rate and to predict how long it will last. Some have attributed the savings primarily to Chinese corporations rather than households. Others point to a precautionary savings motive: Because Chinese people are worried about costs of health care, education and old-age pensions and are unsure about how much these costs might change over time, they respond by saving more. Other explanations point to habit formation or financial development.

But these explanations do not tell the whole story and possibly are not the most important part of the story. For example, while the Chinese corporate savings rate is high, there are similar patterns in other countries. By contrast, the high Chinese household savings rate has no peer among major economies. In my recent research with Xiaobo Zhang, we hypothesized that one important social phenomenon is the primary driver of the high savings rate. For the last few decades China has experienced a significant imbalance between the number of male and female children born to its citizens.

There are approximately 122 boys born for every 100 girls today, a ratio that translates into cutting about one in five Chinese men out of the marriage market when this generation of children grows up. A variety of factors conspire to produce the imbalance. For one, Chinese parents often prefer sons. The availability of ultrasound makes it easy for parents to detect the gender of a fetus and abort the child that's not the "right" sex for them.

More important, China's stringent family planning policy limits the number of children a couple can have. The policy allows most couples to have only one or two children. Families pregnant with a daughter are more likely to terminate the pregnancy in hopes of producing a son within the legal birth quota.

India, Korea, Vietnam and Singapore also have sex ratio imbalances that favor male children despite the absence of these stringent family planning policies. It might be that in these countries people voluntarily want to restrict the number of children they have, and still

prefer sons and have access to inexpensive selective abortions. The sex ratio imbalance is high in these countries but not as extreme as in China.

The resulting pressure on the marriage market in China might induce men and parents with sons to do things to make themselves more competitive. Increasing savings, mostly by cutting down on the family's spending, is one logical way to do that. Wealth helps to increase a man's competitive edge in the marriage market. Ironically, increased savings does not change the total number of men who get married in the aggregate. In this sense, the increased savings is socially inefficient. However, from an individual household's viewpoint, when the competition for a marriage partner is tough, it cannot afford to save less than its competitors. I call this effect "keeping up with the Zhangs."

In our study we compared savings data across regions and in households with sons versus those with daughters. We found that not only did households with sons save more than households with daughters on average but also that households with sons tend to raise their savings rate if they happen to live in a region with a more skewed sex ratio.

Even those not competing in the marriage market must compete to buy housing and make other significant purchases, pushing up the savings rate for all households.

The effect is significant. The household savings rate in China rose from about 16% of disposable income in 1990 to over 30% today, which is much higher than most countries. (The comparable rate in the U.S. was about 3% before the crisis, and 6% in recent months.) About half of the increase in the savings rate of the last 25 years can be attributed to the rise in the sex ratio imbalance.

While the conventional explanations for the high savings rate all play a role, this new research indicates these explanations are not as important as people previously thought. While sociologists and other social scientists have looked at the sex ratio imbalance as a social problem, they had not considered it in relation to the high Chinese savings rate.

In addition, as economists and policymakers have noted with concern the large Chinese current account surplus and large U.S. current account deficit, and the resulting global imbalances, their recommended course of action has focused on changing exchange-rate policy.

None of the discussions have brought family planning policies or women's rights to the table, because many do not see these issues as relevant to economic policy. Our research, however, suggests that this is a serious omission. You can only implement the right policy when you have the appropriate diagnosis, and fruitful policy dialogue has to include consideration of these issues.

## **Taipei housing prices rising stymie search for bride**

High school teacher I-Chung Huang said he's hunted in vain for a home in Taipei's soaring market for four years, convinced that owning an apartment could help him find a wife.

"Renting is fine when you're young, but I'm in my 30s and I have a stable income," said Huang, who earns NT\$80,000 (\$2,700) a month teaching civics and writing textbooks. "I didn't understand it then, but I do now. Taipei's apartments aren't for living, they're for selling."

First-time buyers like Huang have been shut out of the market after home prices in Taipei almost tripled in the past 10 years, spurred by low mortgage rates. With local elections in November, Taiwan's ruling political party has put access to housing near the top of its agenda. President Ma Ying-jeou has proposed building more affordable housing, and increasing taxes for non-owner-occupied homes to curb speculators.

"It's a consensus that young people can't afford to buy a home," said Stanley Su, an analyst at Sinyi Realty Co., Taiwan's only listed real estate broker. "The ruling party must respond to these concerns, and the opposition will have its own ideas, so inevitably there will be policy speculation. The property market will cool."

Taipei sits at the northern tip of Taiwan, an island off China's southeast coast that the world's second-largest economy claims as its territory. The bustling, dense capital city is a mix of old, low-rise buildings and modern office towers, including Taipei 101, the world's third-tallest building. The population of Taipei and New Taipei City, a municipality surrounding the capital, has grown to 6.64 million.

**Record Rates**--Taiwan's housing market surged after the government relaxed rules that prompted locals to repatriate more income from mainland China, and the central bank lowered borrowing costs to buoy the economy. It grew an average 3.3 percent annually since the 2008 financial crisis, compared with 4.6 percent in the previous five years.

As bond yields and deposit rates tumbled, Taiwanese who had accumulated wealth during the 1990s technology boom poured their savings into real estate, driving up prices.

Record low mortgage rates have also spurred housing gains. The average rate in Taiwan fell 51 basis points, or 0.51 percentage point, over the past decade to 1.96 percent in April, according to central bank data going back to 1994. Rates reached an all-time low of 1.62 percent in 2010. They have been below 2 percent since February 2009.

**House Prices**--As quarterly economic growth slowed in the first three months of the year, hurt by weaker demand for exports, the housing market also began to cool. Transaction volumes declined 14 percent to 8,214 compared with the previous period, while Taipei's property prices slipped 1.3 percent, according to Sinyi Realty.

The average price for a residential unit in Taipei was about NT\$22.2 million (\$739,187) at the end of March, according to Sinyi Realty. The average size was 32.6 ping (1,174 square feet).

In 2012, the central bank moved to damp prices. Central bank Governor Perng Fai-nan capped mortgages at 60 percent of the value of properties in Taipei and New Taipei City worth more than NT\$80 million, and NT\$50 million in other parts of Taiwan.

Perng also ordered banks last year to exercise discipline in extending mortgages. Taiwan's five-biggest banks made an average NT\$45 billion of housing loans each month last year, compared with NT\$44.9 billion per month in 2012 and NT\$19.8 billion a month in 2003, according to central bank data.

**Elite One**--Taiwan's legislature took action last month to deter speculation, raising the maximum property tax rate on non-owner-occupied homes to 3.6 percent from 2 percent.

"The government has created an atmosphere of higher taxes and tighter lending, but those with real estate in their hands don't need cash, so prices won't immediately crash," said Cliff So, executive director at REPro Knight Frank in Taipei, the London-based broker's local partnership. "The government may be aiming at a gradual downward adjustment in prices, since a sharp one will do no good to the property market or the economy."

At Elite One, a planned residential complex in Wenshan, a district surrounded by mountains at Taipei's southern end, apartments are being offered for as much as NT\$950,000 per ping, or \$879 per square foot. On a recent Saturday, prospective buyers were entertained by live jazz, lectured on healthy eating, and offered a French meal in a makeshift building that doubled as a sales office on the vacant land where construction will begin in July.

**Ma's Popularity**--About 70 percent of the apartments have been sold, said Dennis Pan, a manager at Jaysanlyn Construction Co., which was commissioned to market the development.

"The real demand is still there," Pan said, speaking in the lobby of the temporary building that houses sample units. "But investors are hesitant now because of government policy. Elections are coming up, and the number one complaint is the property market."

President Ma's approval rating has plummeted since he was elected to his second term in 2012. Driving down property prices is one of Ma's priorities as his party, the Kuomintang, gears up for November's polls. Voters will pick mayors, city council members and other municipal officials.

Ma vowed upon his sixth anniversary in office last month to create 10,800 rental units in the next three years and about 11,000 homes to be sold at below market prices.

**Property Taxes**--Finance Minister Chang Sheng-ford said last month the government may "strengthen" property taxes and expand the tax base with a focus on luxury developments.

"Taipei's property market is starting to gradually dip, and the momentum to rise further has weakened," he said at a media briefing in Taipei.

Foreign investors account for a small portion of Taiwan's housing market, unlike in London or Hong Kong, said REPro Knight Frank's So. He attributed the property market's surge to more funds coming back onto the island from China and a cut in estate taxes.

In 2008, the government relaxed a quota for Taiwanese companies investing in China, and businessmen that may have transferred their funds covertly to the mainland were able to bring the money back to Taiwan. A year later, the government lowered estate taxes from a top marginal rate of 50 percent to a flat 10 percent rate.

**Student Protests**--"Taiwan's fixed-income rates are low and you can't buy that many stocks, so a lot of money was put into real estate," said So.

Home prices have jumped so much that Huang, even with a monthly salary from teaching that's twice Taiwan's average, can't compete with rival bidders. He lost out when his NT\$500,000-per-ping offer for a 15-ping, one-bedroom unit in Zhongshan district was trumped by a NT\$550,000 bid. Huang thought the apartment would be cheaper as the building was about 20 years old, he said.

Huang, 36, founded a group early this year to fight for affordable housing, emboldened by students who staged a 24-day occupation of the legislature. They were concerned that a trade deal with China would give it greater control over Taiwan. The legislative speaker relented, suspending the trade pact's review.

The student protests have bolstered activism for affordable housing, Huang said. His organization, the Taiwan Adequate Housing Association, educates people about housing policies and lobbies lawmakers and government officials. In October, it plans to stage an overnight sleep-in next to a luxury development in Taipei to protest rising property prices.

**Next Girlfriend**--"Taiwan's young people have learned one thing recently: If we fight, there's a chance of things changing," said Huang, who is still looking for a bride. "But I'm going to try to persuade my next girlfriend to accept that I may rent and not buy an apartment for now."

## Questions

1. What is the reason raised by the first article for China's high saving rates? What is its implication for the housing price in China? Do you think it makes sense?
2. According to the second article, what are the linkages among marriage market, savings, and housing price in Taipei? Please compare the situation in Taipei with that in another economy you are familiar with. Does competition in marriage market necessarily increase savings and housing prices?
3. If the stories in this case are relevant, how will the Chinese housing market change in the future?