Another Look at whether the Rich Save More: Evidence from a Survey Experiment

Mike Brewer
University of Essex
Email: mbrewer@essex.ac.uk

John Burton
University of Essex

Thomas Crossley
University of Essex

Paul Fisher
University of Essex

Alessandra Gaia
City University, United Kingdom

Annette Jaeckle
University of Essex

Joachim Winter
University of Munich

A long-standing question in empirical economics is whether more affluent households save a larger fraction of current income than poorer households. Much of the literature has used IV approaches to deal with any measurement error or transitory fluctuations in income, but it is challenging to find valid instruments to deal both with transitory income shocks and the systematic under-reporting of expenditure and misreporting of income that (we think) pervades household surveys. We use data from an experimental design that collected information on income, spending, and "net saving", and then prompted respondents to make adjustments if these were not in balance. Those households who do, after prompting, report consistent data on their household finances have much lower saving rates, below 5% for low income households, and rising slowly to 25% for the richest. On the other hand, the majority of households do not report consistent data on their household finances even after a prompt. Our results highlight the potential for measurement error or transitory shocks to income and spending to distort seriously estimates of the saving function.