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.

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