Beyond the Border

Chile: The Big Saver

Chile's persistently high economic growth has helped make the country a model of success for Latin America. A high savings rate seems to be one of Chile's most important distinguishing characteristics. Because high savings rates often lead to high rates of investment and growth, other Latin American countries want to emulate Chile's savings-inducing government programs.

Developing countries need investment to grow, and they can acquire the necessary funds from either international capital markets or domestic savings. But much research suggests that the international mobility of financial capital is somewhat limited, and that capital that is internationally mobile can be volatile. In other words, money tends to stay in its native country, and the funds that do circulate in international capital markets are subject to capital flight. Volatility apparently occurs for reasons that have as much to do with world capital markets as with anything a particular country can do to promote stability. To the extent that domestic savings are less footloose than international capital, it is not surprising that many Latin American countries have been pursuing increased domestic savings.

Table 1
Chile: The Biggest Latin American Saver
(Savings as a percentage of GDP)

	1988–94 average
Argentina*	19.02
Mexico	19.84
Brazil	22.49
Chile	28.70
Colombia	21.57
Venezuela**	22.68

*1988–93. **1988–95.

SOURCE: Board of Governors, International Monetary Fund.

As Table 1 illustrates, Chile's savings as a percentage of gross domestic product (GDP) have consistently exceeded those of other Latin American countries by 5 to 6 percent. What Chile has been putting away provides a stable source of funding for investment.

In the search for causes of Chile's high savings, the country's private pension system has emerged as the leading candidate. Chilean law requires workers to put 10 percent of their pretax income into one of 18 private pension funds. The growth and development of this system in the 1980s coincided with the steep rise in Chilean savings; hence, the pension program appears to have had an important impact on savings. Argentina, Colombia, Peru and Mexico all have implemented some type of Chilean-style private pension scheme, although these schemes are not always as ambitious as Chile's.

The conventional wisdom views the pension system as a powerful force driving Chilean savings. Research by University of Chile professor Manuel Agosin, although not reversing this notion, raises questions about its strength. Agosin estimates that although total Chilean savings are high, the rate of household savings is about 0 percent. The forced saving induced by the pension system may have raised the rate of household savings, confirming prior beliefs, but from levels that had been negative (2 to 3 percent) for quite some time.

Agosin identifies the two major sources of Chile's savings as the public sector and private firms, which contrasts with the findings of other analysts who have focused on the individual. The public-sector contribution to savings is the smaller of the two but is still important. The fiscal surplus in 1994 was 1.6 percent of GDP; Chile has been running substantial fiscal surpluses throughout the 1990s. Chilean law prohibits the government from running a fiscal deficit, and the Banco Central de Chile cannot finance government spending by printing money. While the Banco Central has been losing money recently, state-owned companies have been making large positive contributions to national savings. The state-owned copper mining company, Codelco, has saved quite a bit over the past few years. The wild fluctuations in the price of copper in recent weeks may hurt Codelco's profitability; nonetheless, the company has been a major force driving Chilean savings. On average, state-owned corporations have set aside about 5 percent of GDP annually, according to Agosin.

Public-sector savings are significant, but private savings are more important, having risen from 2.3 percent of GDP in 1980 to 22.1 percent in 1994. Savings by firms account for most of the increase. The creation of a private pension scheme has played important roles in Chile's economy—including the development of an efficient capital market. But Chilean firms generate most of their savings from within and invest those savings internally.

The basis for firms' savings is, of course, their profits. Chilean government policies, policies that have very little to do with the country's pension scheme, have greatly affected profits. The massive devaluation of the Chilean peso in 1982 triggered a surge in Chile's exports, which ultimately led to an overall economic expansion. Having continued for 14 consecutive years, this expansion has resulted in massive profits that companies have kept for internal investment. Chile's abundant natural resources—copper, fruits and vegetables, fish, and forest products—and government policies that permit their efficient exploitation have offered ample investment opportunities.

Agosin's analysis suggests that other Latin American countries will not be able to duplicate Chile's savings rates by simply aping its private pension system, but most Latin American countries have gone far afield in their reforms in any case. While a private pension system is important, rational fiscal and monetary policies that generate long-term growth are probably much more significant.

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