Chapter vi
CHAPTER - 6
SUMMARY & CONCLUSIONS

In this chapter we present findings of our research work.

(1) Estimation of household saving is beset with many more problems. Firstly, households saving is regarded as the sum of saving in financial assets and in physical assets. The procedures used for obtaining estimates of both these categories of household saving differ. Household saving in physical assets are assumed to be identical with gross capital formation in the household sector. Independent estimates of gross capital formation in the household sector are not obtained. The procedure followed is to construct independent estimate of capital formation for the economy as a whole, public sector and private corporate sector. Subsequently gross capital formation in household sector is obtained as a residual clearly all errors inherent in the estimation of aggregate public and private corporate sector capital formation spill over in the estimates of an important component of household saving, namely saving in physical assets.

(2) Saving in financial assets is added to saving in physical assets as noted above to arrive at household saving. Household sector saving in the form of net financial assets
is estimated instrumentwise. These instruments are currency, net deposits, shares and debentures, net claims on government, life insurance, provident and pension funds. Estimates are obtained using a combination of direct information, benchmark and residual approaches. For instance, provident fund and pension are based on direct information, while net deposit with commercial banks rely on benchmarks. The residual approach predominates in estimating household holdings of currency, investment in shares and debentures and net claims on government.

(3) The allowance of capital consumption namely depreciation is considered different for different sectors of the economy. Moreover there is no precise estimates of capital destruction have been attempted in the unorganised sector of the economy.

(4) To get an idea of the nature of these errors, it is necessary to mention that estimates of aggregate capital formation are constructed by identifying three forms in which physical assets are cumulated, namely, construction, machinery and equipment and inventories. These are obtained by the commodity flow and/or expenditure approach. The commodity flow approach requires decomposition of output plus net import into consumption and investment of certain key commodities, such as steel, cement etc. In practice this decomposition is based on benchmark proportions derived from
sample survey and/or guess estimates, thereby introducing elements of arbitrariness. Another source of error relates to investment estimated in unorganised sector, particularly in jute construction, there income generation, investment and saving processes are coterminous. Obviously, it is difficult to gauge the extent and direction of errors of measurements.

(5) It may be noted that saving of the three sectors aggregated and gross capital formation net of foreign inflow do not necessary match. The difference between the two is used to adjust gross domestic capital formation on the assumption that errors of measurement predominate in investment rate than in saving. This assumption is weak as these discrepancies reflect the extent to which the gap between investment and saving in the organised sector is not matched by net saving transfer from the household sector. Deriving net saving from gross saving involves many more difficulties and limitations. Therefore, gross savings are often used.

(6) Behaviour of new and old estimates of saving. Comparison and implications are as follows. Output, whichever way it is measured, is higher in the new series compared to the old but the coefficient of variability is about the same. However, average increments from year to year between two series differ significantly as revealed by testing the hypothesis, whether the marginal co-efficients are
significantly different from zero. Further, the growth rates between two series, on the average, do not significantly differ from each other.

(7) A comparison of average gross and net saving reveals a mixed picture. Except for gross corporate saving which shows significant discordance in movements in level as well as growth rates, total gross saving and its other constituents do not.

(8) Net saving however, shows divergence only in terms of intercept being different from zero for public and corporate saving. However, growth rates do not differ significantly.

(9) Capital consumption estimates, as can be expected show divergence except for corporate sector.

(10) Gross and net saving rates have a similar pattern except in the case of public saving and the growth of corporate saving rate.

(11) Composition of gross saving by sectors does not show any differential behavioural patterns except the growth rate of share of corporate saving.

(12) Composition of net saving shows a mixed picture. This is not unexpected due to differential patterns observed with respect to capital consumption.
Composition of household financial savings shows similar behaviour except in the case of shares and debentures and provident and pension funds. A conjecture with regard to shares and debentures is the revision in estimation of paid-up-capital and consequent effect on household estimates which is a residual category. Notwithstanding the above, growth rates do not significantly differ.

In a nutshell total savings (gross and net) and their rates show similar behaviour between the two series over the common period considered. The same is true for the composition of gross saving. However, the composition of net saving reveal a mixed picture. Barring public sector saving rate gross or net other sectoral rates exhibit similarity of movement over time. As regards saving levels, the behaviour appears different for corporate saving gross and net - and somewhat for net public saving.

The causes of high saving rate in India during late seventies are as follows, namely - the infrastructure of financial institutions, the accretion of foreign exchange reserves, food grains procurement and buffer stocking, and the effect of inflation on savings.

The share of financial assets in total saving increase as the country move toward process of development, while share of physical assets decline over a period of time.
In case of household savings as expected MPS out of permanent income or the normal income appear to be a more important factor than MPS out of transitory income. In other words, level of household savings is determined by the trends and levels of normal income rather than the current income. In this situation current income will determine current consumption. Thus permanent income hypothesis is relevant to the explanation of household savings behaviour in India at both the aggregate and per capita levels.

The marginal propensity of the agricultural sector to save is substantially lower than that of the non-agricultural sector. Consequently, shifts in terms of trade in favour of (against) agriculture would suggest a decline (rise) in the saving rate. The results suggest narrowing of the saving propensity differentials between the two sectors in the 1970/71-75/76 period, compared to 1952/55 - 69/70 and its widening in the years 1976/77-1985/86, compared to 1970/71 - 1975/76.

The propensity to save in financial assets is significantly higher for the non-agricultural households, compared to the agricultural households, whereas no significant difference is found with regard to the physical assets.

At the aggregate level there is significant evidence that price influence personal saving in India. But at the
per capita level there is no influence of inflation. Krishnamurthy and Saibaba also find that the saving-inflation relationship is non-linear, but inflation has a favourable impact on both aggregate and household savings at moderate rates of inflation.

(21) The most disturbing finding is the declining trend in the public saving rate since 1974 (Post-oil-shock). This has been declining at a rate of 1.5 percent points a year. By 1984 the marginal propensity to save out of net public disposable income was lower than the marginal propensity to save out of net private disposable income by at least 3.4 percent points. This would imply that a transfer of income from private to public hands will reduce national savings. Thus increased direct taxes tend to discourage real saving in India. Therefore, one should also think about taxation on Agriculture Income.

(22) The main causes have been identified for this trend. One is the declining trend in the savings of general (i.e. non-statutory) corporations. Particularly disturbing in this context is the very sharp fall in the corporation contribution during 1983-84 and 1984-85 which averaged 30 percent of public saving. This again brings to the urgent necessity of solving the problem of loss-making units.

(23) Another important cause of declining in public saving is phenomenal growth in government employment together with rising average real wages. Public employment grew at a
compound annual rate of 2.7 percent that is much faster than the rate of population growth. Similarly the average real wage rate grew at a compound annual rate of 1.7 percent a rate which appears to be much higher than wage increase in the private corporate sector. A hard look must be taken at programmes, divisions and departments which are not providing commensurate benefits to the people. Zero-base budgeting may have to be combined with stricter limits on the total real wage bill. A measure of accountability and job-flexibility must also be introduced into public Administration.

(24) There is a positive trend in government purchase of goods and service. The ratio of these public income rose by 1.1 percent points a year from 1974-75 and was responsible for about 40 percent of the decline in the ratio of savings from administration and defence to income. The problem of procurement efficiency of corruption and of material management and inventory control must be forcefully addressed. The efficiency of public goods provision by the government must also be examined.

(25) Moreover there has been a phenomenal increase in subsidies and direct transfers over the past two decades. The ratio of subsidies plus transfers to NNP has more than tripled from 1.8 percent in 1960 to 6.5 percent in 1984-85. This represented a trend increase of 0.2 percent point a year. This rate of increase is two-third the trend rate of
increase of 0.3 percent points per year in the tax ratio with the result that taxes net of subsidies have only grown by 0.1 percent point a year. In other words, subsidies as a proportion of tax revenue doubled from 17 percent in 1900-61 to 35 percent in 1934-85. Indirect subsidies have increased faster than direct transfer with the effect that their share in total subsidies has gone up from 35 percent to 55 percent. Therefore, there is a declining in the public saving and more or less, remains stagnant. The present stagnation in the aggregate saving rate is almost exclusively attributable to the behaviour of public saving in recent years. The time has comes to re-examine its policies relating to subsidies and transfers.

(26) The performance of private corporate saving rate in India are disappointing we first look at the conventional corporate saving ratio obtained by dividing net private corporate saving by net national product at market prices. There is a considerable amount of fluctuation in this ratio over the period 1960-61 to 1984-85. There is, however, no clear trend in this ratio over this period, with the time trend variable being statistically insignificant. There is an impression that the size of the corporate sector has been expanding. If this is true, the fact that the corporate saving ratio has not been rising may be of concern. It is therefore necessary to look at the ratio of private corporate value added to total value added. There is a practical
problem in obtaining a series for private corporate income. The WAS gives data for the factor income originating in the private organised sector. We assume that this approximates value added in the private corporate sector.

The ratio of organised private sector value-added to NDP. This has fluctuated between 12 percent to 15 percent over the period 1960-61 to 1984-85, with a statistically significant negative time trend over the period as a whole. A closer look at the series suggests that negative time trend prevailed till about the mid-seventies statistical analysis confirms that the decline took place till 1975 and that the ratio stabilised thereafter.

Thus, the facts are the opposite of the impression that the private corporate sector is responsible for an increasing share of economic activity. One possible reason for the confusion is that the size of the total organised sector has been increasing because of the rapid growth of the public corporate sector.

The analysis of rate of corporate saving out of profit accruing to this sector. The profit and dividends accruing to the organised private sector is assumed to approximate the net of depreciation income of the private corporate sector. Given these assumptions, we can construct a series for the corporate saving rate. The most important characteristic of this series is the extremely wide fluctuations to which it is
subject ranging in value from 7 percent to 40 percent. A statistically significant positive trend of 0.09 per year is found in this ratio over the period 1960-61 to 1984-85. As the ratio of savings to NNP is stationary over the period, the ratio of profits to NNP must be declining over time. This is consistent with the decline in the ratio of private organised value-added to NNP. Thus most important determinant of corporate saving is corporate income. The high dependence of savings on net income indicates tax policy does exert a significant influence on financing decisions. Given the tendency to follow a target pay out policy and non-shiftable nature of the corporate tax burden a policy aimed at reducing corporate tax rate may help in boosting corporate investments.