Several important points emerging from our attempt to define the role of savings in development may be recapitulated. The historical data provided by Kuznets reveal that the relationships between income, savings, capital formation and economic growth are varied and complex. The process of development, rapid or gradual, has been associated with different rates of savings, suggesting that the combination of the given saving rate with different factors in varying proportions give different growth rates. At times the problems related with development are, perhaps, not adequately appreciated and partial explanations are offered. For example, any approach which accepts factors like savings as dependent variables and explains the complex process of development merely in terms of the entrepreneurial behaviour and the community’s attitude towards risk-taking and money making will have a limited validity. The supply and quality of entrepreneurship may not remain an independent variable. It may be influenced by factors like the magnitude and pattern of savings or the type and pace of technological progress. Similarly, it may not always be correct to suggest that the problem in an underdeveloped economy is of the lack of inducement to invest rather than the scarcity of savings. In an economy making deliberate efforts for development, the problem of the scarcity of savings may be as much important, if not more important, as the problem of the inducement to invest. Again, it is true that additional savings may not be necessary in an economy where the functional efficiency can, somehow, be increased. Planning in an
underdeveloped economy to be meaningful, should strive to achieve functional efficiency. This will enable the economy to actualize the potential surplus. However, so long as appropriate organizational framework is not evolved, more savings will be required in order to achieve a given level of output.

The process of development, being essentially multi-dimensional, cannot be explained merely in terms of the magnitude of saving and investment taking place in the economy. It may also be noted that, generally saving rates, as they are given, underestimate the total savings and overestimate their significance in increasing the production potential. Again, a discussion of the process of development merely in terms of a broad division of the Community's income into consumption and saving will be inadequate. What is required for this purpose is an intensive study of the patterns of consumption and savings. Keeping in view the broader perspective provided by the above discussion, it can be suggested that the generation, mobilization and utilization of savings constitute an important dimension of the process of development. The magnitude and pattern of savings, past or present, domestic or imported, has been accepted as an important indicator of the pace and pattern of development in an economy.

Several noteworthy attempts have been made to find out the determinants of savings. The saving behaviour of a community can be explained by deriving the historical or cross-section saving functions. While the importance of aggregate saving function is recognized the utility of deriving saving functions for various sectors and for various
forms of savings is stressed. However, in an underdeveloped economy such a detailed study at the micro level is limited by the lack of comprehensive and reliable data. Usually, in an underdeveloped economy like India factors like, the low level of national and per capita income, lack of appropriate institutional framework and investment opportunities, and prevalence of non-functional inequality, inflation-sensitivity and heavy pressure of population, all tend to adversely affect the level and/or pattern of savings.

In the context of the Indian economy several important points may be noted. (1) The low level of income places a definite ceiling to the saving ability of an underdeveloped economy. However, it can be argued that even at a lower level of income, efforts in the direction of functional inequality and a more appropriate pattern of income utilization should help in raising the rate of saving. In a developing economy, the possibility of saving a larger fraction of the incremental income can also be explored. It is at times claimed that even with increasing incomes saving rate may not rise due to the operation of the demonstration effect. It is difficult to say as to how far, with increasing incomes, the demonstration effect will come in the way of realizing a higher rate of savings. However, in the determination of the final outcome, both the consumption increasing and income generating impacts of demonstration effect will have to be taken into account. The scope of influencing both these tendencies through planned efforts should also be considered. (2) One of the reasons for the low level of savings in an underdeveloped economy can be the
lack of an appropriate institutional framework. However, even when the necessary institutional changes are evolved through deliberate efforts saving rate may not rise if these changes are not absorbed by the people. If the institutional changes are very rapid and far reaching they may even retard the prospects of savings (as least in the short period).

(3) From the viewpoint of resource prospects in an underdeveloped economy like India, one cannot ignore the high rate of population growth at its own peril. A rapid rate of population growth, by increasing the size of dependent population and the size of family, will adversely affect the savings prospects. It creates a necessity of saving more on the one hand and undermines the ability of the economy to save more on the other. The analysis of the determinants of saving underscores the necessity of deliberate and planned efforts by the State in order to realise the optimum rate of saving in the economy.

Quantitative aspects: An appraisal of the role of savings in a developing economy necessitates a detailed analysis of the quantitative and qualitative aspects of savings. Though valuable pioneering work has been carried out in recent years to find out the magnitude and pattern of savings, the available estimates in India suffer from several important limitations. The saving estimates do not include investment in human capital so essential to the generation of the secular forces of growth in an underdeveloped economy. It is difficult to estimate saving taking place through investment in consumer durables in the absence of reliable data on the prices and durability of these goods. Reliable data on the direct non-monetized investment are not available. Same is the case regarding
The inventory accumulations taking place in agriculture and trade. The available data on non-farm business in rural sector also suffer from severe limitations. A detailed study of the saving behaviour of the non-corporate sector, so important both in terms of its large size as well as high saving propensity, has yet to be carried out. The estimation of the economically more meaningful depreciation allowances on the basis of replacement cost is also difficult due to the paucity of data.

Though certain gaps remain to be filled up, the available estimates regarding the Government and corporate sectors may be considered as comprehensive. The estimates of saving in agriculture and rural housing may also be considered as, on the whole, satisfactory, though the empirical validity of the assumption of constant saving income ratio has yet to be tested. The estimates of savings through urban housing show wide variations suggesting the scope for further improvement. It is necessary to make a study of the estimates of savings and their limitations, however, in a study of the role of savings in economic development, the availability of the potential savings has also to be brought under the perview of discussion. An attempt was made in the present study to gauge the extent to which potential savings are available in the economy. The discussion of the potential surplus in terms of inessential consumption, unproductive investment, inefficient investment, and unemployed and under-employed human resources suggests the existence of a fairly large magnitude of such surplus in the Indian economy. A large magnitude of potential surplus visible in the economy should instil a sense of optimism regarding the resource prospects of a developing economy. However, the actualization of the potential
surplus is circumscribed by the traditional values cherished by the people and the backward nature of the economy itself. The process of the actualization of potential surplus required the operation of the various pressures and inducement mechanisms. It is suggested that the initiation and acceleration of the process of conversion calls for deliberate and planned efforts on the part of the community. At a more concrete plane various measures which may help in the actualization of the potential surplus are critically examined. The policy measures considered include (1) Income distribution (2) Mild inflation and (3) Taxation and Borrowing.

(1) **Distribution** Out study of the distribution of income - both sectoral and personal - suggests mainly three conclusions. (i) The case for excessive personal inequalities has weakened as a result of two important developments: (a) The emergence of modern democratic welfare states having both political and economic sanctions. (b) The possibility of generating more savings through both the Government and Corporate Sectors.

(ii) The saving effort of the Urban Household sector (including unincorporated enterprises) may be considered as satisfactory. The failure to achieve a high saving rate in the Indian economy can be attributed to the low magnitude and/or rate of saving in the three important sectors of the economy, namely the Government Sector, the Corporate Sector and the Agricultural Sector. The contribution of the Government Sector to the total savings pool is low due to the both the low level of Government revenue as a percentage of national income and the low level
of Government saving as a percentage of Government income.

Though the Corporate Sector has a fairly high saving rate, its contribution to the total savings pool is limited by the small size of this sector. On the other hand, the size of the Agricultural Sector is fairly large, however, its contribution is limited by the low rate of saving in this sector.

Our study of the sectoral saving propensities suggests that if the saving rate in the economy is to increase in future, it will largely depend upon the behaviour of these three sectors. There is a need as well as scope for generating more savings in these sectors. Looking to both their relatively poor contribution to the total savings pool and their saving potentially these three sectors are likely to exert a crucial influence upon the saving rate.

(iii) A progressive reduction in the personal inequalities of incomes and wealth consistent with a large magnitude of savings and rapid economic development requires the adoption of a policy of functional inequality which encourages both essential consumption and productive investment as distinguished from inessential consumption and unproductive investment.

It has been indicated that the state can make deliberate and planned efforts for moulding the saving rate through appropriate policies regarding taxation and borrowing. The feasibility of improving the resource prospects through mild inflation is found to be limited.

(2) Policy of mild inflation: The policy of mild inflation has been often suggested for realising a higher rate of saving and capital formation. Inflation is not accepted as inevitable for growth, nor is it considered to be the only condition of growth. Those who advocate mild inflation for
improving the resource prospects in an underdeveloped economy have in mind the favourable impact on saving of the redistribution of income and the expectations regarding higher prices. Certain other factors advanced in favour of such a policy are, the partial dependence of technological progress and economic development upon the magnitude of investment, the self-liquidating nature of inflation associated with developmental efforts, and the possibility of checking wild runaway inflation with the help of refined tools and technique at the disposal of monetary, fiscal authorities.

In evaluating the efficacy of inflation in improving the resource prospects the experience gained by other countries should prove useful. For this purpose the past experience of the advanced countries when they were making attempts for industrialization has been considered. The available data regarding 18 Century England do not provide conclusive evidence regarding the role of inflation in improving the resource prospects. On the other hand, the experience of Japan suggests the successful operation of the inflation mechanism for this purpose. If we consider the experience of present-day underdeveloped areas, countries like Venezuela, Ecuador and Burma achieved fairly high rates of growth with monetary stability, while Mexico, Columbia, Brazil and Peru achieved high rates of growth with inflation.

It is tempting to suggest from the experience of the present-day advanced countries that price stability is essential for economic growth. However, the application of the same logic to the underdeveloped economies should be made with caution. Two important reasons for this have been indicated. (1) The conditions prevailing in advanced and underdeveloped economies are different. (2) Too much importance should not be attached to the correlation between...
price stability and economic growth since it is only one of the factors affecting the rate of economic growth.

In an underdeveloped developing economy inflationary potential and at times overt inflation may be inevitable. This may be due to several factors like the operation of the demonstration effect, the heavy pressure of population, the nature of investment and the structural rigidities associated with the economic system. Under the circumstances a deliberate policy of mild inflation may only aggravate the situation.

The impact of mild inflation upon the saving prospects in India is considered in relation to three important income groups: (a) Fixed Income group. This being an inflation-penalised sector, at least in the initial stages, its saving rate is likely to be adversely affected. A rescue operation through the stabilization of the cost of living index will delimit the scope of forced savings. (b) Agricultural sector. If the redistribution of income takes place in favour of this sector, saving rate may not rise because of the low saving propensity of this sector. It will be somewhat difficult to tap the additional income arising to this sector through taxation due to political considerations. If the impact of inflation is sought to be redressed by a stable price policy, it is likely to have adverse effect upon production. (c) Profit sector. If the distribution of income is in favour of this sector saving rate is likely to increase. However, it is doubtful whether such a redistribution can be continued for a long period. Again, the diversion of funds will also increase consumption inequalities and unproductive investment. Finally, inflation is not found to be the best method for providing the incentives to the profit sector. More direct and discriminating measures can be adopted for this purpose.

The evidence examined suggests that whenever inflation has helped in improving the resource prospects, two important developments
have usually emerged, (i) It has resulted in arbitrary and unequal distribution of the burden of sacrifice. (ii) Though investment in the economy has increased, usually it has not resulted in a desirable pattern of saving and investment. The consistency of these developments with the objectives of planning in India should be considered before passing any judgement regarding the role of inflation in economic development. Whether or not an underdeveloped economy should accept inflation for boosting up the rate of saving will depend upon the consideration of several important factors like the pattern of growth desired, the alternative avenues available for raising the rate of saving, the magnitude of foreign exchange resources accumulated, the possibility of favourable terms of trade and the expansion of the export sector, the efficacy of controls and the extent to which the arbitrary distribution of income will be accepted by the people.

As compared to taxation inflation is found to be crude as a technique of mobilizing resources. It is in this context that the State will have to rely mainly upon the fiscal instruments of taxation and borrowing for influencing the level and pattern of savings.

(5) Fiscal instruments: The fiscal instruments of taxation and borrowing have been considered as major factors influencing the magnitude and pattern of savings in the economy. Our discussion of the potential surplus indicates the scope for resources mobilization. It is admittedly difficult to actualize the entire potential surplus. However, the adoption of planning to be more meaningful, should strive to initiate a process through which the economy can actualize the potential surplus existing in the economy. A major effort in this direction has been made in India during the first
decade of planning. A detailed review of these efforts in the previous two chapters indicates both the spheres of success as well as failures.

While evaluating the role of these fiscal instruments, it may be noted that many complex and diverse factors, besides taxation and borrowing, tend to influence the pattern of income distribution and income utilization. Similarly, the scope for taxation and borrowing is also circumscribed by the backward nature of the economy itself. However, the justification for planning and State initiative emanates from the prevalence of these limitations. If the saving rate of 15 to 20 per cent is to be achieved for self-sustained growth, more concerted efforts will have to be made in these directions. The operation of various resources and inducement mechanisms may help in raising the voluntary rate of saving. However, savings may have to be enforced if the voluntary efforts fall short of the requirements. The maximum savings that the economy can set aside will depend upon the degree of social and political tolerance. The degree of tolerance will depend upon various factors like the urge for economic development, the manner in which the burden of sacrifice is distributed, the efficacy with which the acquired resources are utilized and the manner in which the fruits of progress are shared.