INTRODUCTION

It is now widely accepted that if the development process is to be generated and accelerated in underdeveloped countries, savings rates in their economies will have to be raised. It has been proved that in every economy, irrespective of its socio-economic framework, the problem of savings - its generation, mobilization and utilization - is of vital importance in the process of growth. Ample empirical evidence is available to show the high degree of correlation between economic progress, rapid or gradual and the magnitude and pattern of savings past or present, domestic or imported.

The situation in an underdeveloped economy seems to be paradoxical in that it requires an enormous amount of savings for capital formation on the one hand, and has a palpably small magnitude of actual savings on the other. The people of these areas have already realised their plight and their implacable aspirations for a higher standard of living are increasing. The contrast becomes all the more glaring when it is realised that it is somewhat difficult for a democratic government to step up the rate of domestic savings within a short period of time. The Indian experience of planning bears testimony to this limitation. Even the experience of advanced countries suggests that inspite of increasing incomes savings rate is not amenable to rapid changes during a short period of time. It is in this context that we have to examine critically the problem of generating and mobilizing savings in an underdeveloped economy.
With this background, Chapter One recapitulates some of the important implications arising out of this hypothesis. The task attempted is twofold: (i) to define as precisely as possible, the role of savings in a developing economy and (ii) to analyse the factors which are likely to influence the saving function. Though the scope of our inquiry is restricted to an analysis and evaluation of the importance of savings, it should be emphasised that economic growth is essentially a multi-dimensional process. The evaluation of the significance, both theoretical and practical, of the role of savings in a developing economy, necessitates a probe into the relevance of several issues. For example, from the point of view of the strategy of development, which is the more important bottleneck, the lack of savings or the lack of inducement to invest? Is the critical problem one of finance or of functional efficiency? Or how is the level of consumption related to economic development? Are we to emphasise the abstinence of the rich or the economy of high wages? Any attempt to provide universal laws about all these posers will always be futile and at times misleading. However, it may be fruitful to analyse the relevance of each of these factors for an economy at a point of time or over a short period of time. Our attempt at defining the role of savings in the Indian economy presupposes the broad acceptance of this point of view.

Our second task is to analyse the factors which are likely to influence the saving function. Writers like Keynes (and his followers like Tobin), Duesenberry, Mondigliani, Milton, Friedman,
Kuznets, Goldsmith and others have made noteworthy efforts
to probe into the aspects of the behaviour of the saving
function. The scope of our enquiry here is, however, modest.
Our main concern here is to indicate the problems and pros-
pects of savings in a country like India. This consideration
governs our analysis of the factors influencing the saving
function.

Chapter Two mainly deals with the problems of esti-
mates of savings and the conversion of the potential into actual
surplus.

The analysis of the estimates of savings may be divided
into three parts as follows:

(a) Conceptual and methodological issues relating to
the savings estimates, (b) Important limitations of the savings
estimates given by the Reserve Bank of India and the National
Council of Applied Economic Research, (c) Estimation of the
potential savings as contrasted to actual savings available for
development. These estimates have been based mainly upon the
data provided by the National Sample Surveys, Rural Credit
Survey and its Follow-up Surveys. Wherever possible, the esti-
mates of saving given by the Reserve Bank and the National
Council have also been used. Our attempt to estimate the
potential saving may be considered as exploratory rather than
definitive.

The analysis and evaluation of the concept of potential
savings has been carried out in terms of its location, measure-
ment and mobilization. It is suggested that the resource problem
of an underdeveloped economy like India largely centres round
the conversion of the potential into the actual surplus. An economy may strive to achieve this by (1) raising the level of savings and/or (2) by changing the pattern of savings.

It is now sufficiently realised that if conscious efforts are to be made for moulding the saving function in such a way that it helps in inculcating and activating the forces of growth, the State will have to shoulder a major responsibility.

One of the peculiar features of the Indian economy is that while the role of the State in total planned investment outlay is ever increasing, its share in the generation of total savings is considerably lower. Even today as much as 85 per cent of the domestic savings come from the private sector. However, in spite of this peculiarity, the State has to play a definite role in order to initiate the process through which the potential surplus can be converted into the actual surplus. If the State is to become a major partner in the huge investment programmes, it is necessary to increase, both the total magnitude of savings in the economy and its increasing diversion towards the State.

Apart from the problem of increasing revenue for rapid development, there is another facet to the problem. Planning in India strives to achieve several goals, one of them being the reduction in the excessive concentration of income, wealth and power. An increase in Government revenue may bring us nearer to this aim in two ways. Taxation policy may be devised in such a way that it reduces the existing inequalities. Secondly, such
disparity may also be reduced through an appropriate expenditure policy of the Government. Looked at from both the points of view, the Government's fiscal policy may not be operationally meaningful unless, the Government revenue and expenditure forms a fairly large proportion of the total national income.

In so far as the problem of resources is concerned, the State may play a decisive role in two respects. (1) The share of the State in total savings pool may increase. There are two important reasons for this. (a) With the expansion of the public sector, the State will be responsible for generating a larger share of the national income. In the context of the scarcity of resources, the public sector is likely to be called upon to yield increasing surplus. (b) In order to fulfill its investment targets the State will also raise additional resources through taxation. The extent to which the Government saving may be raised will depend upon the size of the gap between Government receipts and its expenditure. The gap can be widened either by increasing the receipts or reducing the expenditure or both.

Usually we devote attention to the problem of increasing receipts than of reducing the expenditure. This, of course, does not mean that the problem of Government expenditure is less important.

While granting the necessity of increasing Government expenditure due to its increasing responsibilities, it should be remembered that unless non-developmental expenditure is kept to the minimum, efforts at increasing revenue, however large and successful, may not help in raising the saving rate of the Government sector.

The fact that we have concentrated our attention on problems of raising additional resources does not mean that we consider the
problem of the magnitude and pattern of Government expenditure as insignificant. In our analysis, we assume that the state should and will make efforts for restricting its non-developmental expenditure to the minimum possible level. (2) Apart from this direct impact, the state can also exert an indirect impact upon the savings pool. If the state is not in a position to save enough to fulfil its investment targets, it may mobilize the private savings, or conversely, if necessary, the state may also divert certain of its resources to the private sector. Thus even when government saving is low it may still exert a crucial influence upon the generation and mobilization of savings in the economy. The state may influence the resource prospects in various ways. The institutional framework evolved, the price policy followed, the size and pattern of investment programme accepted, or the technique followed for mobilizing the resources all are likely to affect in one way or the other the rate of savings in the economy.

It is this crucial role of the state that we have kept in mind in the discussion which follows in the rest of this thesis. In Chapter Three we consider the strategy for mobilizing savings in relation to the pattern of the distribution of income—both sectoral and personal. We have at first examined the classical case for inequality, both in its theoretical and historical perspective in order to indicate its relevance under the modern conditions. This is followed by a discussion of the distribution of income in order to
pinpoint the factors responsible for the low rate of saving in India. The sectors that we have in mind are three, namely, the Government Sector, the corporate sector and the Household Sector. We have touched upon the problem of the personal distribution of income in our discussion of the Household Sector.

The discussion on the sectoral distribution of income is guided mainly by two considerations. (i) If a particular sector has or is likely to have a relatively higher saving propensity with which it can play a decisive role in increasing the savings pool, that sector should be rapidly expanded. (ii) If the saving propensity is lower in a particular sector, efforts should be made to increase the saving rate in that sector through deliberate measures.

In our discussion of the personal distribution of income, an attempt is made to find out the functional relationship between inequality and savings. Both, theoretical and historical evidence is analysed in order to explain this relationship. The type and degree of inequality necessary to make savings a function of inequality is suggested. A question is also raised as to how far such inequality is in consonance with the ideal of a modern welfare state, and to what extent it is inevitable for economic progress. In evolving the criterion for the personal distribution of income, a study of both income distribution and income utilization is suggested. The concept of optimum or functional inequality is found to be useful in this context.

The role of the state in mobilizing the resources constitutes the theme of the last three Chapters. Here a case study of India is made with reference to both past performance and future prospects.
In Chapter Four we consider the possibility of adopting the primrose path of inflation for solving the problem of savings. It is necessary to make comprehensive study of this problem in view of the recent plea for adopting the technique of deliberate inflation. We discuss the extent to which the past or present experience of advanced and underdeveloped countries can be helpful in the formulation of our policy. To what extent and with what safeguards can valid conclusions be derived from the experience of these countries? We also discuss here the practical utility of inflation technique in raising the saving rate, the conditions under which it may operate successfully and the limitations from which it suffers.

In Chapter Five the problem of savings is studied in relation to the taxation policy of the Government. Two basic premises should be clearly understood here. (i) We take it for granted that a country decides to achieve, as a matter of policy, certain growth rate in the economy, and is prepared to accept the attendant burden of raising the necessary resources for investment. (ii) The given level of investment can be secured either through the efforts of the private sector or the public sector. If the major responsibility of attaining the given level and pattern of investment is accepted by the State, it can finance this either through taxation, or loans (compulsory or voluntary) or forced savings. Actually the investment target may be realised by the efforts of both the public and private sectors, and the necessary resources may have to be secured through a variety of methods. Our discussion of the taxation policy should keep in view of this overall perspective.
We first consider some of the issues involved in the formulation of taxation policy. This is followed by an analytical review of the tax effort made, both by the Centre and the States during the last decade. In the light of the above analysis several suggestions are offered for both direct and indirect taxation. Prospects of raising resources through appropriate price policy of public enterprises are also assessed here.

It may not be possible for the State to raise all the resources required for investment through taxation. The Government, therefore, will have to resort to borrowing. This subject constitutes the theme of our final chapter. The State may borrow the funds either through voluntary or compulsory loans. The inherent limitations of the borrowing programme in an underdeveloped economy like India are indicated. This discussion is followed by an evaluation of the efforts made in India to mobilize savings through loans, small savings and other capital receipts. The prospects of raising additional resources through these channels are also assessed.

As a result of the unprovoked Chinese aggression a new dimension has been added to the problem of resource mobilization. The Indian economy has been called upon to bear the heavy burden of financing both defence and development. The implications of this in terms of savings effort are, no doubt, of considerable significance. It was not possible to analyse and incorporate the various issues involved in this endeavour. In a sense, the basic problem of resource mobilization, either for defence or development, largely remains the same in so far as the additional
resources have to be procured from the same pool of potential savings. In this context, this study does indicate the lines along which the resource prospects can be improved.

Two important limitations of our approach to the problem of savings may be indicated here. (1) The problem of imported savings is omitted. (2) Similarly, in our theme we have touched mainly the problems of savings and investment in the public sector.

Regarding the first limitation, it may be pointed out that our omission of the discussion of imported savings does not imply that we consider it as of lesser significance. As a matter of fact, in a country like India the importance of imported savings is increasing. Historically also, foreign capital has played an important part in the economic development of an economy or the reconstruction of a war-ravaged economy. We have not touched the problem of imported savings, firstly, to delimit the scope of our enquiry. Secondly, we also believe that, in a country like India, ultimately, it is the domestic savings effort which is likely to play a crucial role in the future growth of the economy.

Regarding the second limitation we have viewed the problem of resources by keeping the State and its requirements in the centre of our discussion. We have indicated earlier the reasons for assigning important role to the state. Such a treatment seems to be consistent with the basic premises accepted in the Indian planning. It is the necessity of increasing diversion of resources towards the State which has determined our approach to the problem. However, even while discussing the problem of resources in terms of State policy and its requirements of
savings, we have not neglected the problem of savings in the private sector. The problem of private savings has been considered at various places. We have considered in Chapter One, the various factors which are likely to mould the saving function in the economy. In Chapter Two we touch the problem of private savings in our analysis and evaluation of the concept of potential savings in terms of its location, measurement and mobilization. Savings prospects in relation to the distribution of income are discussed in the Third Chapter. The problem of the deliberate policy of mild inflation is also viewed in terms of its impact upon the level and pattern of savings in various sectors of the economy. Similarly, the problems of taxation and borrowing are considered not merely in terms of the resources which they may provide to the state, but also as factors which are likely to shape the magnitude and structure of private savings. They are, in short, viewed as potent instruments which can mould the saving function in the economy.
CHAPTER I
SAVINGS AND ECONOMIC DEVELOPMENT

This chapter is divided into two parts. In part I an attempt is made to define the role of savings in the process of growth. As a preliminary to this certain basic issues connected with savings and development are discussed. We have dealt mainly with the following four issues: (1) Savings vs. the Inducement to invest; (2) Savings vs. Functional Efficiency; (3) Savings vs. Consumption and (4) Savings, Social Requirements and Institutional Framework. Part II is devoted to a study of various factors which are likely to influence the saving function in an underdeveloped economy.

PART I
I

PROCESSES AND PROBLEMS OF GROWTH

The post-war period witnessed the efforts at economic development on the part of many underdeveloped countries in Asia, Middle East and Latin America. The compulsions of the time have led these countries to accept rapid economic development as, more or less, imperative. The current efforts at development have induced many economists to explore the problems of development in these countries. As a result of this we observe, in the post-war period, a continuous flow of literature on the causes and cures of underdevelopment.

These efforts have revealed various symptoms of underdevelopment. Generally the ubiquitous characteristic of an underdeveloped country has been found to be the low level of national
and per capita income. It is realised that an underdeveloped economy has a "multibottleneck characteristic". The abject poverty of these areas has been considered to be the result of various forces like the low level of savings for capital formation, lack of productivity increasing inventions and innovations, a relatively high rate of population growth, deficient organisational framework and the prevalence of values and attitudes inimical to progress. The combination of one or more of these factors having varying intensity, retard the generation of the secular forces of growth in the economy. Thus the process of growth is held back by a series of "interlocking vicious circles."

It should be noted that the process of growth is essentially multi-dimensional involving the interactions of various forces - both economic and non-economic. Our purpose here is to study the problem of savings which constitutes an important dimension of the growth process. The operational significance of resource scarcity in an underdeveloped economy may be manifested in various forms. A country may not have adequate natural resources which can be exploited advantageously. Scarcity may also be felt in terms of insufficient entrepreneurial talent as a result of the prevalent social and economic environment which inhibits the supply of dynamic entrepreneurship. Our interest here is mainly in the scarcity as it is posed in terms of insufficient availability of savings. Our interest centres round that part of the community's income which is not spent for current consumption, and is, therefore, available for investment purposes.
The recent literature on development has emphasized the necessity of a large savings effort for the development on an underdeveloped overpopulated economy. The justification for such a viewpoint emanates from several considerations. The theory of balanced growth implied, directly or indirectly, the necessity of providing a large amount of savings for development. A similar emphasis upon the necessity of a large saving effort is also suggested by the Rostowian concept of "Take-off". "Take-Off", according to Rostow, requires a concerted effort during a short span in order to instil sufficient strength into the system for a "decisive break-through" and self-sustained growth. The problem has been viewed from one more dimension. Such a transformation of the economy has been viewed in the context of exploding population growth. It has been suggested that a critical minimum effort is needed if the economy is to be extricated from the Malthusian trap.


The immense task involved in financing a development programme seems to have been duly stressed by the academic thinking. The pertinent question before an underdeveloped economy is: can it raise the saving rate to the desirable level? The available empirical evidence suggests the overall stability of the saving rate in the long run. Goldsmith's data regarding savings in the United States (1897-1949) indicated the secular stability in the saving rate. The historical study of savings by Kuznets also revealed that for developed and semi-developed countries' net saving rate varied within the limited range of 5 to 15 per cent. In his study of the United States during 1879-1928 (with prices adjusted to 1929 level) Kuznets found that saving/income ratio remained stable during this period. In brief the above analysis suggests both the necessity of a large amount of savings and the difficulty of raising the saving rate.

The academic thinking along these lines might have sounded a note of pessimism regarding the prospects of development. However, instead of being overwhelmed by the task ahead, some of the underdeveloped countries have responded favourably to the challenge.


An attempt to define the role of savings in a developing economy necessitates an analysis and evaluation of several issues. This will clarify the role of savings in a developing economy. In this context, which is the more important bottleneck, lack of savings or lack of inducement to invest? Is the critical problem one of savings or of functional efficiency? What is the relationship between the supply of actual savings and the entrepreneurial behaviour? How are the levels of consumption and savings related to economic development? It will be futile to provide universal laws about all these posers. We will consider the relevance of all these factors in the context of the Indian Economy.

1. SAVING VS. INDUCEMENT TO INVEST:

Some of the underdeveloped countries like India are known for the existence of potential resources which are not fully exploited. Economists have pointed their fingers, to several factors, namely, the prevalent conspicuous consumption, disguised underemployed labour, and the excess capacity in the industrial sector, to justify their claim that the problem in these countries is not of the inadequacy of savings, but of the lack of the inducement to invest. It is true that political instability or inflation sensitivity resulting in economic insecurity stifles the incentive to invest. This will be particularly relevant in an underdeveloped economy where the initial investment will have to be in the sphere of social and economic overhead capital. The emergence of the necessary infra-structure will require a large amount of resources, the returns from which will occur after a long time and probably in an indirect manner. Inducement to invest, under the
circumstances, is likely to be weak. Therefore, sufficient incentive will have to be provided to the private sector, or else, the state itself will have to invest the funds in such spheres. However, the argument that improvement in the marginal efficiency of capital and the spectrum of profit opportunities will solve the problem of low level of actual savings is not wholly appropriate. Even if this is true in certain cases it is difficult to make generalizations from this for all underdeveloped countries as has been done at times. It is possible to visualize a situation where the scarcity of savings is perhaps as much, if not more, important as the inducement to invest. This overemphasis upon the inducement to invest relegating the problem of the low level of the supply of savings has been partly due to the theory of balanced growth. The theory of balanced growth, it is true, indicated the need for large amount of resources for simultaneous investment in various complementary sectors and industries. However, at the same time, perhaps, it had the unintended effect of minimizing the role of savings when it emphasized the problem of the lack of inducement to invest. The experience of India shows that the problem of the supply of savings can not be considered as a dependant variable. The lack of Inducement to invest in appropriate channels by itself cannot explain the whole problem of capital formation. This is especially so when functions of savings and investment have been separated in the modern world. For example,

the political and economic stability, in the wider sense of the term, has been achieved in India. The state itself is sponsoring the growth process by its huge investment in creating the infrastructure. Once the economy gets the momentum, the problem may be one of the investment opportunities, but of the scarcity of requisite funds. As the Indian experience shows, both the public and private sectors actually compete with each other for resources. That is how, perhaps, the question of priorities in the utilization of resources comes into the picture.

2. SAVINGS VS. FUNCTIONAL EFFICIENCY:

There are two ways in which the problem of increasing production can be solved. It can be done by increasing the pool of savings or by utilizing more efficiently the available resources. If the available resources are used more efficiently, the problem of the inadequacy of savings can be solved to some extent. What is required for this is an appropriate organizational framework. With the given factor supply and factor-proportions, productive consequences will be different with different organizational framework. With the given techniques and the supply of resources, the development of the economy is a function of the effectiveness with which these resources are utilized. In other words, effective utilization of savings is as important, if not more important, as the generation and mobilization of savings.

The problem of savings in relation to functional efficiency deserves closer analysis for two important reasons.

Firstly, the problem of excess underutilized capacity is not merely confined to the advanced economics. It may sound somewhat paradoxical that underdeveloped countries experience acute shortage of resources for development on the one hand, and maintain large underutilized capacity on the other. Secondly, functional efficiency will enable the economy to actualize the potential savings already existing in the economy. It is in this context— that a study of the location and measurement of such potential surplus assumes vital importance (for a further elaboration of this concept see Ch.2).

If appropriate organizational framework is evolved, it may not be necessary for the economy to reduce the consumption standards of the people. One of the proponents of the organizational approach is Maurice Dobb. He writes about the Soviet experience, "that the previous backwardness of industrial development in such regions has not been due in the final analysis to any financial deficiency (inadequate savings or absence of financial means for their mobilization) but to a deficiency of their economic organization". During the first plan Soviet Russia did not reduce consumption. Consumption was to grow during the First Plan by 40 per cent in value and 75 per cent in real terms. The absolute level of consumption was thus planned to increase, though the share of consumption to national income was designed to fall from 81 per cent to 66 per cent. It is true that savings can come either from prior restriction on consumption.

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or from increasing incomes. Prior restriction on consumption may not be necessary in a country where basic organizational changes can meet the demand for consumer's goods.

This is not the only example which shows the importance of organizational framework. Recently Malenbaum has tried to study the impact of organizational framework upon the growth of the economy. The real income growth rate in India during April 1, 1950 to March 31, 1959 was 3.5 per cent per year. During essentially the same period the Chinese growth rate was three times as high. On the basis of his analysis he comes to a startling conclusion. He writes "The present analysis thus indicates, economic development overwhelmingly favourable to Chinese efforts, both with respect to actual performance and to potential for further growth". What is more important for our present analysis is, however, the part played by organizational efficiency in these countries. It is no doubt difficult to quantify the part played by organizational framework. However, the rough calculations made by Malenbaum are indicative of the trend. His calculations for the period 1950-57 suggest that "55 per cent of the difference in the rate of growth in the two countries can be attributed to the greater efficiency with which the Chinese apply their investment, 45 per cent is thus attributable to the more rapid rate of expansion in investment".

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11 Ibid, p.289 - It is difficult to say whether China still enjoys this advantage. Malenbaum seems to believe that China is still leading. See his "Prospects for Indian Economic Development", London, George Allen & Unwin Ltd., 1962, p.42.

12 Ibid, p.299.
While such a comparison gives us a broad idea about the performance of the two countries, too much reliance can hardly be put on such estimates. Such a comparative analysis assumes that the degree of organizational efficiency and the magnitudes of savings and investment are the only variables affecting the growth rate. In reality, many other factors like the rate of population growth, the distribution of income, the pattern of investment, the techniques of production, the degree of coercion adopted etc. affect the growth rate. However, even if we do not place too much reliance on these figures, India can hardly put forward the excuse of democratic framework for her poor performance. We will presently consider the problem of organizational efficiency in India, to prove this point.

Lack of appropriate organizational framework has resulted in a huge wastage of resources in India. The existence of unutilized capacity in industry and agriculture illustrates this phenomena very clearly. In India the Ministry of Commerce and Industry has tried to study the problem of unutilized capacity in industries. Even when unutilized capacity is calculated on the basis of single shift, the capacity is not fully utilized in 85 per cent of the industries. Production has increased during the last few years through fuller utilization of capacity. In 1955, 50 per cent of the industries utilized less than 50 per cent of their capacity. As compared to this in 1960 nearly 65 per cent of the industries utilized more than 50 per cent of its capacity. The difficulties regarding labour, supply of managerial talent, raw materials, power and transport etc. could have been solved through a more

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efficient organizational set-up. Another study by Mr. Holoman also indicates the same thing. His survey of some of the industries through "snap-reading" showed that as much as 40 percent of the time was wasted while machines had to wait for feed, allocation of jobs, operator, material etc.

A similar evidence from the agricultural sector can be easily cited. The experience of India shows that it is possible to increase output without increasing investment, provided the organizational framework is toned up. There seems to be much truth in the thesis of Prof. Dantwala that functional efficiency will help considerably in increasing the output.

Some under-utilized capacity may at times be inevitable due to various bottlenecks that a developing economy is likely to face. However, through the coordination of various policies and synchronization of programmes attempts should be made by such countries to make the utilization more efficient.

The concept of functional efficiency, it may be noted, does not imply that additional savings are not necessary for development. Here the distinction between the potential and actual saving is important (see ch.2). What the advocates of functional efficiency imply is the possibility of converting the potential savings already existing into the actual savings. Deliberate and

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14 See Eastern Economist, Feb. 17, 1961
planned efforts can be made for increasing the functional efficiency. However, weak organizational framework is essentially an inherent attribute of an underdeveloped economy. So long as a higher degree of functional efficiency cannot be achieved, the need for additional savings will be more than what would have been the case with functional efficiency.

3. SAVINGS VS. CONSUMPTION AND ECONOMIC DEVELOPMENT:

Let us now try to understand the relationship between consumption, savings, and economic development. Economists belonging to various schools have tried to understand the possible relationship between consumption out of a given income and its impact upon growth. Fuller utilization of the available resources and economic development will be achieved by curtailing consumption, by increasing consumption or without disturbing the level of consumption for the economy as a whole? In other words, does economic development require increasing, decreasing, or constant consumption in the initial stages? An answer to these questions will depend upon the assumptions that we make and the conditions under which the system is operating. That is why all the three alternatives were recommended at different times by different schools. The classical economists viewed economic development as essentially a race between capital accumulation and technological progress on the one hand, and the growth of population and diminishing returns on land on the other. Taking for granted the favourable institutional set up, they emphasized the relationship between capital formation and economic development. Adam Smith gave the dictum that the accumulation of wealth is a function of parsimony and not prodigality. The reasoning of
the classical writers was governed by two famous assumptions, viz. the existence of full employment and the operation of Say's Law. The acceptance of the first assumption led them to believe that savings can increase only by curtailing consumption. Saving and consumption, according to them were "inevitable alternatives". Their argument that the savings resulting from the curtailment of consumption will be automatically invested was the result of their belief in Say's Law. The classical economists, therefore, established a positive relationship between the magnitude of savings and the rate of economic development, although they did not fully realize the significant role which savings and investment were to play in future progress. Some of them even looked upon the beneficial role of savings with scepticism. Early 19th century economists like Lauderdale, Malthus and Gismondi stressed, with unusual clairvoyance, the dangers of underconsumption and over-saving. They were, however, concerned more with the problems of short-term fluctuations than the long-term growth.

The second alternative of increasing consumption for fuller utilization of resources was the outcome of thinking which took place with the background of great depression. Taking the clue from Malthus and others, it was for Keynes to point out clearly the decisive role played by lack of effective demand in generating the forces of depression in developed economies. Keynes observed that the income elasticity of demand is less than unity and therefore, marginal propensity to consume is lower than the average propensity to consume. If the lack of effective demand, a symptom of excess savings, is not to result in depression, the level of consumption will have to be increased.
Let us now take up the third alternative. In the discussion of the current problems of underdeveloped countries, some economists took the clue from the Keynesian remedies for an underemployment equilibrium. If the advanced countries had unemployed resources, so also the underdeveloped economies had overt or disguised unemployed resources. The exploitation of the disguised underemployed resources, it was thought, would result in economic development. However, the idea of achieving development without prior restriction on consumption, though quite novel and attractive, was found to be unworkable in practice to a large extent. It was realised that restriction on consumption out of existing and incremental income is necessary if economic development is to take place. This, it was contended, may have to be forced upon the economy, if voluntary savings failed to provide the requisite resources for development. It was realised that, among other things, the scarcity of investible savings and not its abundance was at the root of the state of underdevelopment.

In the discussion on development such a dichotomy between consumption and saving is quite usual and also necessary. We feel, however, that such a broad division in terms of magnitudes by itself may not explain the process of growth. What is necessary is an intensive study of the patterns of consumption and savings. Such a study will be useful in understanding the relationship between the levels and patterns of consumption and its impact upon development; for example, even when the need for restricting consumption is stressed in an underdeveloped economy, the scope for rapid development may increase by increasing certain types of consumption, although, eventually this may turn out to be a
problem of shifting the pattern and distribution of consumption expenditure as between various classes than of an overall increase in consumption expenditure.

4. SAVING, ENTREPRENEURIAL BEHAVIOUR AND SOCIAL REQUIREMENTS:

Before summing up the discussion it may be worthwhile to consider the views of Kaldor about the role of savings and capital formation in economic development. In his search for the "prima mobile" in economic development, Kaldor claims that savings and investment, like technological change or population growth, are not the ultimate stuff for development. They merely characterize a progressive economy. He calls them the "external conditioning factors". Whatever might be their potential value, their actual value in a capitalist society is determined by the entrepreneurial behaviour. Kaldor seems to have assigned great importance to the Schumpeterian hero in the process of development when he says that development or its absence can be explained by the community's attitude towards risk-taking and money-making. Though the theory seeks to explain underdevelopment in "any society" as such it rests on the major assumption about the capitalist system. This circumscribes its scope in explaining development or its absence in, say, a mixed economy. In a mixed economy, where the state itself may be an entrepreneur the attitude towards "risk-taking and money-making" by itself may not explain all the savings and

investment activity. Kaldor's analysis has a limited validity even when the assumption regarding the capitalist system is retained. Kaldor has rightly emphasized the importance of the entrepreneur in dynamizing the process of growth. However, in doing so, he seems to have slurred over the examination of the impact which the magnitude and nature of savings, or the type and pace of technological improvements will have upon the supply and quality of entrepreneurship.

Kaldor feels that too much importance should not be given to savings because "savings in the community are not so much the result of basic psychological attitudes and propensities, as of the institutional framework of society, which is itself continually (though slowly and gradually) adapted to social requirements."\(^\text{18}\) Here again, perhaps, Kaldor fails to grasp the complex interrelationships between various forces operating in the economy. In the ultimate analysis, he rightly points out, social requirements are important. But just as social requirements affect institutional framework and savings, so also the basic values and norms of the society and the resultant attitudes and propensities will affect social requirements and therefore, savings. To argue that the emerging institutional framework and the magnitude of savings are determined only by social requirements is to oversimplify the complex processes of social evolution. Both social requirements as well as values and attitudes mutually interact to produce a combined impact upon the saving function. Kaldor seems to be much nearer truth when he says in a later article that "the actual rate of progress

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18 Loc. cit. E.J. March 1954, p.69
in a capitalist economy is the outcome of the mutual interaction of forces which can adequately be represented only in the form of simple functional relationships (like supply and demand curves) rather than constants.  

III

What then is the role of savings in an underdeveloped developing economy? It may be pointed out at the outset that the relationships between income - savings - capital formation - and economic growth are complex and varied. The empirical evidence suggests that the relationship between these variables is influenced by various other factors. Kuznets's calculation of the coefficient of rank correlation for 10 countries suggests an insignificant correlation between savings, capital formation and growth. This only indicates that savings rates can not explain, by themselves, the pace and pattern of development. Therefore, apart from the magnitude and structure of saving, it is necessary to study various other factors, both economic and non-economic.


21 ibid p.21. Kuznet's data reveals that gross domestic saving rates may remain high throughout the period of development (Argentina); They may be high in the initial stages and remain stable or decline in later stages (U.K., U.S.A., Italy, Germany). Finally, savings may be low or declining in the initial three to five decades of growth and rise afterwards (Norway, Sweden, Canada, Australia, Japan). This, however, does not mean that savings are not necessary for development. It only suggests that the combination of given savings with different factors gives different growth rates.
in order to explain the pace and pattern of development. The analysis carried out so far, suggests that, along with other factors, the magnitude and structure of savings has an important part to play in an underdeveloped economy. The transition of an economy through the "take-off" stage requires an ability, "to mobilize domestic savings productively, as well as a structure which subsequently permits a high marginal rate of savings." Once the economy crosses the take-off stage it also begins to reap the advantages of "compound interest" depending upon the directions - both quantitative and qualitative - of the "feedback" effect of the various forces generated in the economy.

Prof. Lewis also seems to assign the same importance to savings when he says, "The central problem in the history of economic growth is to understand the process by which a community is converted from being a 5 per cent to 12 per cent saver with all the changes in attitudes, in institutions and in techniques which accompany this conversion." It is hardly necessary to emphasize that the problem of development can not be solved by merely raising the rate of saving in the economy. Economists like Colin Clark have complained that in the post-war literature on development too much importance has been given to the functional relationship between savings-investment and economic


growth. The principal factors of development, according to him, are human not physical. Increased investment does not necessarily result in economic development. A. Aukrust made a study of forces affecting economic development in Norway during 1900-1955. On the basis of the data (which he considers as fairly reliable) he comes to the conclusion that human factors i.e., better knowledge, organisation, skill, effort, education, enterprise etc. — increased productivity by 1.8 per cent per year. Colin Clark has rightly emphasised the importance of human factor in economic development. However, while pointing out the limitations of overstressing the importance of savings and investment, he seems to err on the other side when he says that the principal factors in economic development are human and not physical (natural resources and capital). 


25 Quoted by Colin Clark, op. cit. p.34

26 Ibid. p.15. This statement does not seem to be consistent with another on p.51. "We must not neglect the wisdom of classical economists who saw that the agents of production are land, labour, capital and enterprise; neither economic theory nor recent experience provides support for the view that one factor takes absolute precedence over the others."