



PHOSPHORESCENCE OF SAVINGS ON INDIAN ECONOMY

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Abstract:

Savings is most crucial for the economic well-being of the individual who saves and that of the country to which he/she belongs as well. Savings is possible only if one is ready to sacrifice a part of his/her current income without spending the same. Once savings accrue it gets transformed as investments by the role played by financial intermediaries. Savings and investment lead to capital formation thereby enhancing production and employment opportunities. Increased production leads to improved exports and this makes the country wealthier. More employment opportunities boost the individual spending and improve the standard of living.

Key Words: Savings, Society & Employment

Introduction:

The dynamic society needs saving for its socio-economic development. Savings and investment are important drivers for the economic growth to progress. Savings afford buttress for the future wants of individuals and also enable to meet the unforeseen happenings. And also the savings ensures secured future, improved living standards, peace, ameliorated amenities, such as medical, education, housing as well as measures of social security, such as old age pensions and unemployment benefits.

Role of Savings:

Savings of people in financial service sector gets invested in trade, commerce or industry through the capital market and brings improved production and also generates more employment opportunities thus industrialization is made possible. More number of industries and companies make significant contribution to government revenue by way of paying taxes. This enables the government to finance the all developmental programmes in the country. Savings thus forms the bed rock of development activities. Good infrastructural facilities lead to aggrandized effects like meliorated international competitiveness, increased foreign direct investments, more exports, favorable balance of payments position, improved gross domestic product levels, etc. Good infrastructure which vanguards industrialization has its constructive vibes deep in the length and breadth of the country assuring future economic prosperity. The development of multipurpose river schemes, irrigation, agriculture research, transportation, adds to increase the agriculture production of state. Better production contributes the improved quality of life of the rural population as well. Thus saving shapes the socio-economic and cultural development of a country.

Saving is the epicenter based on which all the economic policy decisions are made. Saving has attained a prime importance in budgets for controlling the possible inflationary tendency and to check deficit financing. It is the responsibility of the government to check the business cycle and trade cycles. Economic policies like monetary policies and fiscal policies facilitate governments to manage the economy in a balanced fashion. Savings and investment avenues are the key clutches to control the inflationary and deflationary tendencies. When there is inflation, the government takes several measures like increasing lending rates, hiking interest rates on deposits or bonds, calling back of loans, etc. All these reduce the money circulation in the country as the surplus money is parked in bonds or bank deposits due to attractive interest rates offered. On the other hand increased lending rates in banks discourage borrowing which in turn curtails production and end in low employment rates. Lowered employment means reduced spending and thus inflation is controlled. During deflation, the propensity to save is less because of lower rates offered which results the income getting flown into the commodity markets for consumption which results in inflation. Saving is thus a major factor that ensures a balanced growth in the economy and the general well being of society, as well as, of the individual.

Does Savings and Investment Lead to Economic Prosperity:

Though savings lead to the economic prosperity of the country, sometimes it is considered as a myth. There is an ongoing debate on the role of savings and investment in promoting economic growth. It is felt that savings impairs the development too as it reduce spending. And decreased spending leads to lessened demand for the products furthermore the companies with curtail the production activities. Lowered production will end up in decreased employment opportunities and poor spending thus lowering the standard of living of the people which questions the country's development as well.

The question now is "Saving or spending- which is good for the economic progress of a nation?"- There is a necessity to balance both savings and spending to achieve growth in a economy. How much to save nor how much to spend purely depends on the stage of economic development in which the nation is.

Research Perspectives on Savings and Economic Prosperity:

Economic history suggests that countries that were able to accumulate high levels of domestic investment largely are financed by domestic savings leading to faster rates of economic growth and development. While the Harrod-Domar Model identified investment as the prime contributory factor, the Solow Model emphasized on savings. According to the conventional perception, savings contribute to higher investment and, hence, higher GDP growth in the short-run (Bacha, 1990; Jappelli and Pagano, 1994). The central idea of Lewis's (1955) traditional development theory was that increasing savings would accelerate growth. Conversely, several more studies have concluded that economic growth contributes to savings (Sinha and Sinha, 1998; Salz, 1999; Anoruo and Ahmad, 2001). Carroll, Overland, and Weil (2000) demonstrated that "if utility depends partly on how consumption compares to a habit stock determined by past consumption, and otherwise-standard growth model can imply that increases in growth can cause increased savings." Bacha (1990), Otani and Villanueva (1990), and Jappelli and Pagano (1994) concluded that a higher savings rate led to higher economic growth. Piotr Misztal (June, 2011) analyzed the cause and effect relationship between economic growth and savings in advanced economies and in emerging and developing countries. The research results confirmed the existence of positive, unidirectional casual relationship between economic growth and savings.

Furthermore, a study of 32 countries by Kriekhaus (2002) notes that a higher level of national savings led to higher investment and consequently, caused higher economic growth. Besides, macroeconomic stability, factors like inflation, interest rates, public investment, exchange rate policy, income and wealth play a vital role in the determination of savings and investment.

In an international perspective, India had a relatively high savings rate as compared to many other countries, except those in East Asia (Athukorala and Sen, 2001). Inter-country experiences with regard to the links amongst savings, investment and growth appear complex, divergent and country specific with the conclusion that the positive effect of savings on growth is more straight-forward, and higher savings raises the growth rate of output by increasing capital accumulation. The relationship between savings rate and growth has been found to be bi-directional and positive for south-east and south Asia (Dholakia et al, 2008). The process of economic growth hinges critically on the generation of greater savings and its channelization into productive investment. There are a host of channels for such a process to operate leading to virtuous cycle of savings, investment and growth that is said to be operating in India now. Firstly, savings effects growth positively in those countries that are not too close to the technological frontier, but does not affect it at all in countries that are close to the frontier. Growth may result from innovations that allow the domestic sectors to catch up with the frontier technology. Secondly, lagged savings is significantly associated with productivity growth for poor but not for rich countries. This effect operates entirely through total factor productivity (TFP) rather than through capital accumulation. Thirdly, savings is significantly associated with higher levels of FDI inflows and equipment imports and that the effect that these have on growth is significantly larger for poor countries than rich (Aghion Philippe et al, 2006). Mr. Gregor Hopf (September, 2011) studied the savings and investment: the economic development of Singapore 1965-99 and ascertained that savings, based on favorable circumstances, which were very well exploited, leading to investment, which in turn lead to growth and thus enabled more saving.

An empirical exercise conducted by RBI (2001) showed that the impressive growth story of India, particularly in the aftermath of reforms seems to have been facilitated by the improvement in the rate of aggregate domestic savings. Empirical relationship between the changes in GDP and incremental savings provides the evidence of a bi-directional causality - highlighting the role of the feedback effects emanating from savings to economic growth and vice versa (RBI, 2001). The behaviour of the savings rate and economic growth in India during the reform period seems to suggest that the high growth phase is associated with higher order of increase in domestic savings.

Computation of Saving:

In view of the critical role played by savings in the growth process, it is widely recognized that it is important to have reliable and timely estimates of domestic savings and investment. The issues relating to the estimation of gross domestic savings and household savings, in particular, have assumed immense significance in the recent times. In the contemporary global setting, the estimation and interpretational issues pertaining to savings have become critical. Savings estimates can be direct or indirect, it could be survey based or flow-of-funds based. It is recognized that problems related to computation of savings are not specific to India alone, as one finds the interplay of these issues in different countries, including developed countries like the US, where debates are persisting with regard to private saving and inclusion of capital gains in the savings estimates.

These issues are very relevant when the Indian economy has commenced its journey on a high growth trajectory. In India, the methodology adopted for estimating savings and investment has evolved over the years in tune with the international guidelines and improvements in the domestic statistical system. Nonetheless, it is felt that there is a need to critically review the available estimates of savings and investment in the Indian economy with respect to data base, methods of estimation, reliability and interpretational significance.

Gross Domestic Product and Gross Domestic Savings:

Though many economists all over the world tried numerous ways and methods to determine the national income of their countries since the early sixteenth century, they could not arrive at a appropriate method. Dr. Simon Kuznets, a Russian economist who migrated to America estimated GDP for the first time and released it at American Congress in the year 1934. Although it was not accepted much as a proper indicator at the beginning, later it was acknowledged universally. Today the governments all over the world rely and confide on the figures of GDP for all the policy decisions.

GDP or gross domestic product is a monetary measure of the market value of all final goods and services produced in a country in a given time period. According to OECD, “Gross domestic product (GDP) at market prices is the expenditure on final goods and services minus imports: final consumption expenditures, gross capital formation, and exports less imports”. There are three approaches in computing GDP namely the expenditure approach, the output approach and the income approach. Gross fixed capital formation (GFCF) is a component of expenditure approach to calculate GDP which refers to the acquirement and creation of assets by producers. Capital formation is possible through two ways either by shifting of the savings of household and government sectors to the business sector or by sourcing funds from abroad. Both will lead to increased production thus paving way for economic affluence. Savings sourced domestically from all the three sectors (household, government and corporate) in known as gross domestic savings. The CSO defines savings as “the excess of current income over current expenditure and is the balancing item on the income and outlay accounts of producing enterprise and households, government administration and other final consumers”. Economic times define Gross Domestic Saving as “GDP minus final consumption expenditure. It is expressed as a percentage of GDP”.

The World Bank which was set up with an intention to reduce poverty and build prosperity in developing countries tracks and publishes all the data relevant to GDP, capital formation, etc. as a source of offering financial and technical assistance to developing countries. It was known as International Bank for Reconstruction and Development (IBRD) when it was founded in the year 1944. The World Bank now has 189 countries as its members. The bank helps the member countries by sharing and applying innovative knowledge and offering solutions to challenges faced by them through the data and researches undertaken by it. It has huge collection of statistics on various development indicators like education, gender, health, population, employment, fertility rates, dependency rates, agriculture, resources, production, pollution, technology, defense, etc.

Trends in International Gross Domestic Savings:

Country	1990	1995	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015
Asia – Emerging Market and Developing Economies (EMDEs)													
India	22.8	24.4	23.7	33.5	41.0	36.5	38.2	38.2	35.5	33.9	33.9	33.1	31.7
China	39.1	43.5	37.5	47.6	52.0	51.9	51.1	51.5	49.5	49.8	48.9	49.7	48.7
Indonesia	32.3	30.6	32.8	29.2	26.0	26.4	31.1	32.6	33.0	32.2	30.5	31.0	32.2
Malaysia	34.5	39.7	46.1	42.8	38.8	38.5	33.4	33.5	34.1	30.9	29.4	29.4	28.0
Pakistan	11.1	15.8	16.0	15.2	21.2	16.9	20.3	21.6	21.4	20.5	21.4	22.6	23.3
Sri Lanka	14.3	15.3	7.4	17.9	23.6	18.0	23.9	28.5	26.3	33.3	29.9	29.5	27.9
Thailand	33.8	35.4	31.5	30.3	32.1	29.7	28.4	28.3	29.3	27.7	26.4	27.9	32.1
Other selected Emerging Market Economies (EMEs)													
Brazil	21.4	16.5	16.5	19.8	17.3	16.9	13.9	19.3	19.5	16.9	15.1	16.2	14.4
Mexico	22.0	22.6	21.9	22.3	24.7	25.1	24.7	23.9	23.2	23.6	21.0	21.5	22.0
Russian Federation	30.3	28.8	38.7	33.8	30.1	31.5	22.7	27.2	28.0	26.3	22.8	24.0	25.9
South Africa	23.2	18.9	18.9	17.5	15.6	17.5	18.0	18.0	17.5	14.8	15.2	15.5	16.4
Select Advanced Economies													
France	21.2	19.7	21.4	19.5	22.8	22.3	19.9	20.0	20.6	20.5	20.4	20.5	21.0
Germany	23.1	22.7	22.1	22.2	27.5	26.5	23.8	25.2	27.2	26.3	26.3	27.1	27.7
Japan	33.7	29.7	26.9	25.0	29.1	27.4	24.1	25.1	24.2	23.6	24.0	24.6	27.0
Korea, Rep.	36.4	36.6	33.4	32.4	33.0	32.9	32.7	34.8	34.7	34.4	34.5	34.5	35.6
Singapore	44.0	50.1	46.9	47.1	49.2	45.0	44.6	51.7	49.8	47.9	48.2	46.4	46.1
NA United Kingdom	18.1	17.0	15.8	13.6	16.1	13.8	11.8	13.2	14.1	12.4	12.3	12.8	12.2
United States	16.3	16.9	16.7	14.1	17.3	15.5	14.4	15.2	15.8	17.8	18.4	19.3	19.2
Memo													
World	23.2	22.6	22.2	21.7	26.5	25.4	23.2	24.4	24.5	24.6	24.3	24.8	24.7

Source: World Development Indicators 2011, World Bank

Gross domestic savings rate as a percentage of gross domestic product combined for the world which portrays an increasing trend till the year 2007 started falling from the year 2008 because of the repercussions of the financial crises. The same started to improve from the year 2011 till the year 2014 and in the year 2016 it slipped little again. In India, the Domestic savings rate in India demonstrates an escalating trend from the years 2000 to 2007; which slightly dropped in the year 2008 and again started to improve. From the year 2011 gross domestic savings of India started to fall again and it hurred down to 31.7% in the year 2015. The working group

on Savings during the 12th five year plan (2012-13 to 2016-17) recognized the significance of general as well as country-specific factors underlying the differential savings performance. For instance, in the case of China, Ma and Yi (2010) have highlighted that the increase in savings rate was reflected across the three sectors - household, corporate and government. Apart from rapid economic growth, a number of factors facilitated the increase in savings in the three sectors such as tough corporate restructuring (including pension and home ownership reforms), large-scale migration of profits), sharp decline in the youth dependency, the persistence of the saving habit among the households, rising government income and a clear preference for government investment over consumption. The high savings rate of Singapore, on the other hand, has been attributed to rapid economic growth and the institution of the Central Provident Fund which is a compulsory and comprehensive savings plan. Similarly, rapid economic growth, favorable demographics and mandatory contributions to the Employee Provident Fund are some of the major factors underlying the high rate of savings in Malaysia.

Gross Domestic Savings in India:

Indian economy has always been known for enormous savings amongst the burgeoning economies of the globe today. The significance of savings and investments in India was realized only after independence. Before independence people gave least importance to savings and spend much on their earnings. Initiatives of the government resulted in improved savings and investments since 1950s.

India determines the savings by computing gross domestic savings in which is divided into two; i.e. savings by public sector and savings by private sector. Public sector savings include Central, State and local governments and other departmental undertakings, statutory corporations, government companies, etc. Private sector savings is further classified into savings by house hold sector and savings by corporate sector. Savings of private corporate sector arise from savings and investments by non-governmental enterprises like joint stock companies, private business entities and co-operative form of institutions. Household sector savings include savings by households, charitable trusts, non-profit entities, etc. which is again divided into three parts; (a.) savings in financial assets like bank deposits, shares, debentures, mutual funds, etc. (b.) savings in physical assets like house, real estate, furniture, etc. and (c.) savings in the form of valuables like precious metals, stones, paintings, antiques, etc. The Central Statistical Organization (CSO) is located in Delhi and it is a part of the Statistical wing of National Statistical Office (NSO) functioning under Ministry of Statistics and Programme Implementation. It was set up in the year 1951 to compile National Accounts Statistics by coordinating all the statistical activities in the country like GDP, surveys, working papers, etc.

Gross Domestic Product and Gross Domestic Savings (Rs. in Billions):

Year	Gross Domestic Product (GDP)	Gross Domestic Savings (GDS)	% share of GDS in GDP
1950-51	104.01	9.89	9.51
1960-61	179.42	20.79	11.59
1970-71	476.38	68.21	14.32
1980-81	1496.42	265.90	17.77
1990-91	5862.12	1344.08	22.93
2000-01	21774.13	5155.45	23.68
2010-11	77841.15	26217.42	33.68
2011-12	87360.39	30267.24	34.65
2012-13	99466.36	33647.67	33.83
2013-14	112366.35	36036.05	32.07
2014-15	124337.49	40984.53	32.96
2015-16	136753.31	44050.86	32.21

Source: Central Statistics Office (CSO)

The state of affairs of the Indian economy at the time of independence was demonstrating stagnation in almost all the aspects like infrastructure facilities, population, employment, per capita income, social wellbeing, capital requirements, industrialization, technological advancements, economic equalities, etc. With all these challenges the government of India launched the five year planning process in the year 1951 to revive the economy from all the struggles and transform the nation to a developed one. The economy in the phase of its development has been experiencing numerous structural changes, revolutions and reforms and is gradually getting rejuvenated as a developed country.

The Gross domestic product (GDP) and Gross Domestic Savings (GDS) serve as a barometer of the economic progress of the nation. The table above establishes the economic progress of India which was facilitated through GDP and GDS. The GDP of India had improved from Rs. 104.01 billions in the year 1950-51 to Rs. 476.38 billions in the year 1970-71 despite several setbacks like monsoon failures, wars with China and Pakistan, etc which haunted India during the first two decades since independence. Increase in agricultural productivity, embryonic industrialization and sound economic policies contributed to the growth path till early

1970s. Significant economic development was witnessed in India from 1970s. Green revolution laid the foundation for increased agricultural productivity. Agricultural modernization which enabled India to achieve self-sufficiency also fueled industrialization. The increase the gross domestic savings in the late 1970s was witnessed as a result of expansion of the banking sector. India's growth path made its remarkable turn during 1980's and the GDP which gathered momentum escalated ten times since the previous decade of 1970s. During early 1990s India slowly started making structural changes to stride towards Liberalization, Privatization and Globalization (LPG). The seeds of reforms in economic policies which were sowed since independence are facilitating India to reap the fruits in the form of high growth rates in GDP till date. The progress in the GDP is mirrored in the increase in gross savings levels too. There appears to be constant contribution of GDS towards the GDP. The share of GDS strides from 9.51% in the year 1950-51 to 33.68% in the year 2011-12, after which it remind to be the stagnant. Policy decisions implemented by the government to arrest inflation and refurbish the economy from the downtrends led to the fall in the contribution of savings to gross domestic product. The economic growth pattern of India since independence proves that the contribution of savings is the most important factor which holds and leads a country in the growth path.

Reasons Attributing the Increase in Savings in India:

- ✓ Increase in the educated and working population.
- ✓ Attractive tax savings schemes.
- ✓ Inventive and numerous investment avenues with inimitable features.
- ✓ Sound and vibrant financial system.
- ✓ Effectual economic policies.
- ✓ Impact of LPG.
- ✓ Green revolution and its impact in rural earnings.

GDS Components' Share in GDP:

Year	Household Sector			Private Corporate Sector	Public Sector
	Financial Savings	Physical Savings	Total		
1950-51	0.7	5.8	6.5	0.9	2.1
1960-61	2.5	4.3	6.8	1.6	3.2
1970-71	2.9	6.6	9.5	1.4	3.4
1980-81	5.8	6.3	12.1	1.6	4.1
1990-91	8.5	10.0	18.5	2.6	1.8
2000-01	9.9	11.5	21.4	3.7	-1.3
2010-11	10.0	12.8	23.1	8	2.6
2011-12	7.0	15.8	22.8	7.3	1.2
2012-13	7.1	14.8	21.9	7.1	1.2
2013-14	6.8	11.4	18.2	10.9	1.6
2014-15	6.0	11.2	17.2	10.9	1.6

Source: Central Statistics Office (CSO)

Savings of Household Sector:

Household savings and economic development of India are intricately woven together. Savings of household sector include two forms of savings; savings in the form of financial instruments and physical assets. Since independence the contribution of financial savings of Indian households to the economic development of the country has been remarkable. Government of India initiated several measures like attractive and unique avenues for savings and investment with good rates of interests, tax savings schemes, etc. to encourage household savings. The dynamic role played by the Indian financial system and the reforms in the financial sector has led to amplify the contribution of the financial savings to grow from 0.7 percent in the year 1950-51 to 10 percent in year 2010-11. Monetary policy decisions of the Reserve Bank of India to keep inflation under control resulted in low rates of returns offered by financial instruments and deposits thus lowering the financial savings in the country. Savings of households in physical assets which demonstrated a persistent increase for more than 60 years from 1950s started to drop after the financial year 2011-12. The OECD Economic Surveys, India (November 2014) mentions that the high inflation and negative real interest rates on bank deposits have distorted household behavior. Consumer price inflation has remained much higher than in the OECD area and in other BRIC countries. OECD states that structural reforms are necessary to raise India's economic growth.

Savings of Private Corporate Sector:

Savings by private corporate sector too follows the trend of household sector's savings. Though the savings by private corporate sector was comparatively petite during the first few five year plans, it started to accelerate since 1990s after the liberalization of the economy. Opening up of the economy resulted in growing demand and enhanced consumption necessitated the companies to produce more which resulted in remarkable profit margins. Accrued profits contributed to improved corporate savings till the financial year ending 2010-11.

Corporate savings' contribution to GDP declined from 8% in the year 2010-11 to 7.1% in the year 2012-13. It hovered around 10% after the financial year 2013-14.

Savings of Public Sector:

The public sector savings which made reasonable contribution to the gross domestic since 1950s could continue the pattern only till 1980-81 it later turned negative. Positive involvement of the sector began again from the 21st century's commencement and its contribution was wafting around 1% since 2011-12.

Conclusion:

Savings has been the quintessence of the Indian growth chronicle. Savings along with investments had made the country prosper since Independence and thus India is being able to scale up the growth trend steadily without relying much on foreign funds. Despite the globalization effects the dependency on domestic funds for sustaining the growth path remained analogous. The financial system in India had played a major role in converting savings into investments by acting as a catalyst and channelized the funds from surplus to deficit thus leading to economic prosperity.

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