# CHAPTER–11

# CHAPTER II

## SAVINGS AND MEDIA OF SAVINGS

# CHAPTER II

## 2.1 INTRODUCTION:

The habit of savings has developed in human life since time immemorable. In olden days man used to save in the form of foodgrains and other useful goods and seivices. But in the money economy of today savings are in the form of cash, and other valuables. The uncertainities and risks of modern age force man to save for the future. Especially the middle class and upper middle class people have more plans for savings than the poor class.

Savings which are defined as "Income which is not spent" or income - consumption expenditure = savings. It is not only concerned with the individuals and familier but also to the economy as a whole. Savings increase the investments which in turn promote capital formation.

In the economic development of a nation, savings have got very important place. In order to accelerate the process of growth in economy a country has to boost its level of investment. This investment can be financed from internal savings and external savings. The entire growth process is finaced from within because foreign loans have to be repaid with interest. Thus the growth process makes it imperative. to mobilise savings within a country.

Savings and investments are the two important aspects of economic development of a country. Savings include household savings and corporate savings. For productive investment and mobilisation of savings is quite essential. In India household savings have got an important place in total savings. The salaried persons contribute much towards the household savings with the growth of educational institutions, teachers form an important class of people in the society. They set an example of systematic living for others.

The High School teachers who are well paid have ability to save. They know the importance of thrift and savings. After meeting the consumption expenses they are left with surplus income. Thus the surplus income is made available for investment in various sectors. Therefore, in this Chapter, an attempt has been made to study :

1) The nature of savings & its determinates.
2) Motivates for savings.
3) Pattern of domestic savings.
4) Household savings and media of savings of householders.

## 2.2 NATURE OF SAVINGS:

There are divergent views among the economists regarding the term savings. Keynesian School of Thinking says :-

Saving is defined as the excess of income over consumption expenditure ( S = Y - C ). Keyne's aggregate saving is the direct result of the saving of individual units in the economy. Savings had however, been defined in various ways, Keyne's has made current saving depends upon current income. Saving is defined as the income earned in a period minus the consumption in the same period.

Robertson, another American economist,believes that the current savings are more a function of the past income. According to Robertson, Savings is the difference between Yesterday's income and today's consumption. That is saving is that part of income received in the immediately preceding period which is not spent on current consumption goods.

Still others have the opinion that;

" Change in assets minus change in liabilities is savings. " And savings may be individual savings and institutional savings.

## 2.3 PERSONAL SAVINGS:

The present study relates mainly to the saving habits of High School teachers. Therefore saving is confined to individual saving which is defined as " personal, private, non-corporate saving ". It is the difference between disposable personal income and personal consumption expenditure. Thus saving involves setting aside a portion of current income for future use.

Personal saving depends upon mainly two factors :-

i) Ability to save.

ii) Willingness to save.

It also depends on many complex factors such as;

(a) National income.

(b) Methods of Exependiture.

(c) The spirit of thrift.

(d) Facilities for investments.

(e) Family size.

(f) The extent of urbanisation.

(g) Taxation.

(h) Prevailing rates of Interest.

(i) Availability of Savings Schemes.

(j) Financial institutions.

There are also many other psychological factors also. It shows that personal savings are subject to a large number of influences.

2.4 MOTIVES FOR SAVINGS:

The study of motives for savings helps in attempting to alter saving habits of people. Any attempt to channel savings into forms which facilitates their use for productive investment should be based on knowledge of people's investment performances and motives for selecting one form of saving from other.

According to NCAER Surveys, the motives for savings are :

(1) Savings for emergencies.

(2) Savings for old age.

(3) Savings for gifts, donations and piligrimages.

(4) Savings for dowaries, wedding and other ceremonies.

(5) Savings to buy large consumer goods, cars, bicycles, motor-cycles or scooters etc.

(7) Savings for education of children.

(8) Savings to buy or build a house.

(9) Savings to help the country.

(10) Savings as a companian.

Out of these ten motives for savings, the most important motives are protection from emergencies, provision for old age and childrens education, patriotic considerations, gifts, donations and purchase of consumer durables are very important motives for savings.

According to Keynes, the good motives for savings are: the motives of precaution, foresight calculations, improvement, independence, enterprise pride, and avarice.

## 2.5 PATTERN OF DOMESTIC SAVINGS:

The principle part of total savings of a country is in domestic savings. In India, domestic savings are formed under the following heads :-

(a) Household sector.

(b) Private corporate sector.

(3) Public sector.

The composition of these three for the period

1950.51 to 1990.91 is shown in Table No. 2.1

The data in table 2.1 show that the share of savings from household sector in total domestic savings as compared to savings to savings from corporate and pulic sector in each year is more. During the period 1950.51 to 1990.91, the percentage of household savings to domestic savings varied in the range between 73% to 83%. This shows that about more than 73% of domestic savings come from household sector in each year. Public sector stands second in contributing to domestic savings in each year upto 1985.86.

TABLE NO. 2.1

Estimates of Domestic Saving by Institutional Sectors (at current prices)

(Rs. in Crores)

| SECTOR | 1950.51 | 1960.61 | 1970.71 | 1980.81 | 1985.86 | 1988.89 | 1989.90 | 1990.91 |
|---|---|---|---|---|---|---|---|---|
| 1. Household Sector | 718 | 1362 | 4873 | 21848 | 39811 | 68608 | 81319 | 97441 |
| Percent of total domestic savings | 73.6 | 66.0 | 71.8 | 75.9 | 74.2 | 83.6 | 80.9 | 83.9 |
| 2. Private Corporate Sector | 89 | 276 | 657 | 2284 | 5415 | 7090 | 12098 | 13923 |
| Percent of total saving. | 9.1 | 13.4 | 9.7 | 7.9 | 10.1 | 8.6 | 12.0 | 11.9 |
| 3. Public Sector | 168 | 425 | 1253 | 4654 | 8457 | 6346 | 7054 | 4690 |
| Percent of total domestic saving. | 17.3 | 20.6 | 18.5 | 16.2 | 15.7 | 7.8 | 7.8 | 4.0 |
| 4. Total domestic savings (1+2+3) | 975 | 2063 | 6783 | 28766 | 53068 | 82044 | 100471 | 116054 |

Source: Economic Survey: 1980.90. Figures from 1980.81 onwards relate to new series and are not strictly comparable with the earlier figures. CSO: Quick Estimates: February, 1992.

## 2.6 HOUSEHOLD SAVINGS:

It is seen earlier that the household savings constitute the major share in the total domestic savings of the Indian economy. Broadly speaking household savings comprise two forms. One is financial assets and the other is physical assets. Savings in the financial assets include: currency, deposits with commercial banks, co-operative banks and credit/non credit societies and non banking companies, L.I.C. policies, provident and pension funds, investment in shares and debentures of corporate and co-operative sectors, bonds of public sector enterprises and units of Unit Trust of India.

The household sectors saving in physical assets comprises additions to construction, machinery and equipment and inventories. For example, many farmers construct wells, ponds etc., themselves or with labour who is paid in kind. The saving equivalent to the value of these physical assets is included in the saving of the household sector.

Regarding the present position of household sectors savings, different components, financial assets and physical assets (total), the Report of Currency and Finance 1989.90 (PP 5 to 9) gives the following important facts :-

i) The net saving of household sector which increased by Rs 12,668 Cr. or 33.2% to Rs 50,837 Crores during 1988.89, is increased by Rs 8,252 Crores or 16.2% to Rs 59,089 Crores during 1989.90.

ii) The share of financial assets (net) in the total net saving of the household sector which declined from 68.3 percent during 1987.88 to 56% during 1988.89; increased to 66.4% during 1989.90.

iii) The saving of the household sector in the form of currency which declined by Rs 559 crore or 11.6% to Rs 4,256 crore during 1988.89, increased by Rs 3,324 crore or 78.1% to Rs 7,580 crore during 1989.90

iv) The household sector's saving in the form of deposits with commercial banks, co-operative banks and credit societies and non banking companies increased substantially by Rs 4,613 crore or 28.2% to Rs 20,961 crore during 1989.90 as against the increase of Rs 2,115 crore or 14.9% to Rs 16,348 crore during 1988.89.

v) The savings in social security funds like insurance, provident and pension funds increased from Rs 9,109 crore during 1987.88 to 10,735 crore during 1988.89 and then to Rs 12,161 crore during 1989.90. However, the household sector's saving in the form of insurance: LIC, Postal Insurance, State Insurance funds, and Central Government Group Insurance funds increased from Rs 2,570 crore during 1987.88 to Rs 3,367 crore during 1988.89 and further to Rs 4,161 during 1989.90.

iv) The household sectors saving in small savings, Government securities, National Rural Development Bonds, National Deposit Scheme, Deposit Scheme etc. increased by 48.6% from Rs 3,681 crore during 1987.88 to Rs 5,471 crore during 1988.89 but declined to Rs 5,302 crore during 1989.90.

vii) The household sector's saving in the form of investment in shares, debentures and units (UTI) showed a substantial increase of Rs 1,016 crore or 45.3% to Rs 3,261 crore during 1989 as against an increase of Rs 341 crore or 17.9% to

Rs 2,245 crores during 1988.89.

viii) The household sector's saving in physical assets increased by 84.9% from Rs 12,094 crore during 1987.88 to Rs 22,362 crore during 1988.89.

Thus, the exact position of saving of household sector in the form of financial assets and physical assets as discussed above can be seen from the following table.

TABLE 2.2

SAVING OF THE HOUSEHOLD SECTOR

(Rupees crore at current price)

| | Description | 1987.88 | 1988.89 | 1989.90. |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| 1. | Financial Assets (Gross) | 34,227 | 39,380 | 49,665 |
| | Percent of Net Domestic Product at Market Prices. | 11.4 | 11.2 | 12.5 |
| 2. | Physical Assets (Net) | 12,094 | 22,362 | 19,877 |
| | Percent of Net Domestic Product at Market Prices. | 4.1 | 6.4 | 5.0 |
| 3. | Financial Liabilities | 8,152 | 10,905 | 10,453 |
| | Percent of Net Domestic Product at Market Prices. | 2.7 | 3.1 | 2.6 |
| 4. | Total Net Saving (Net of Financial liabilities) (1+2+3) | 38,169 | 50,837 | 59,089 |
| | Percent of Net Domestic Product at Market Prices. | 12.8 | 14.5 | 14.9 |

Source: Report on Currency & Finance 1989.90 Page No. 9.

## 2.7 MEDIA OF SAVINGS OF HOUSEHOLDERS:

Householder savings are mobilised through various instruments. The well known are Compulsory Provident Funds, Contractual Life Insurance Policies and Voluntary Bank Deposits and Small Savings. Leaving aside Provident Funds, the nature of other media of savings is briefly discussed as under :-

### (a) Small Savings:

Small savings tap the genuine savings of the people. Therefore, it is regarded as the safest form of government borrowing. Government of India has introduced various schemes to collect small savings.

These schemes are as follows :

(1) Post Office Saving Bank Deposits.

(2) Cumulative Time Deposit Scheme.

(3) Twelve year National Defence Certificates.

(4) Ten Year Defence Deposit Certificates.

(5) Post Office Time Deposits.

(6) Post Office Recurring Deposits.

(7) Treasury Savings Certificates.

(8) 7 years National Savings Certificates (VIIth and VIIIth Issues).

(9) National Saving Certificates.

(10) Fixed Deposit Schemes.

(11) 5 Years Indira Vikas Patra.

(12) Post Office Saving Accounts.

(13) 5 years Kisan Vikas Patra

(14) 15 years Public Provident Fund.

(15) Time Deposit Accounts.

(16) National Saving Schemes 1987.

(17) National Saving Schemes 1992.

(18) Monthly Income Schemes Account.

(19) Public Provident Fund Account.

(20) Deposit Scheme for retiring Govt. and Public Sector undertaking employees.

One of the important features of these schemes is that the rate of interest varies according to the scheme and on some schemes income-tax concessions are also provided.

(b) Bank Deposits:

Commercial and Co-operative Credit Banks in India are making all possible efforts to mobilise savings by way of accepting deposits in rural and urban areas. In order to cater to the various needs of investors, commercial banks have introduced various deposits with different features carrying different attractive rates of interest. The important types of deposits are : Current Account, Savings Bank Accounts, Fixed Deposits Account, Recurring Deposit Account, Premium Deposit Schemes, Continuous Deposit Schemes, Kalpavriksha Deposit Schemes, Monthly/Quarterly Repayment Plan. Reinvestment Plan, Annually Deposit Schemes, Janta Deposit Account, Kshemanidhi Cash Certificates, Money Flex Deposit Scheme.

(c) Life Insurance Policies:

L.I.C. is also making efforts in mcbilising household savings through variety of Life Insurance Policies. Householders prefer to insure because there is element of protection against risk (death) and it also contains an element of investment.

There are numerous forms of policies designed to fit specific needs of people. Some of the important forms of policies are:

i) Whole Life Policy with and without profits.
ii) The limited payment life policy.
iii) The convertible whole life Assurance Policy.
iv) The Endowment Assurance Policy.
v) The Double Endowment Policy with Profits.
vi) The Marraige Endowment (Educational Annuity).
vii) Net Janaraksha Plan.
viii) Bhavishya Jeevan with Profits.

ix) The Joint Life Endowment Assurance on two lives.

x) Jeevan Sathi.

xi) Jeevan Sarita.

xii) Capital Redemption Assurances.

xiii) Jeevan Mitra.

xiv) Jeevan Chhaya

xv) The Children Deferred Endowment Assurance.

xvi) The Children Anticipated Policy with Profits.

xvii) Jeevan Balya

xix) Jeevan Kishor

xx) Jeevan Surabhi

(c) <u>Units in Unit Trust of India</u> :

The various motives for saving affect the saving habits of an individual through the change in desire to save. Income, age and social status of people determine the relative importance of various forms of savings. The Unit Trust of India has mobilised savings. Section 21(2) of the Unit Trust of India Act, 1963 provides that "for the purpose of providing facilities for participation in income, profits and gains arising out of the acquisition, holdings management on disposal of securities by the Trust, the Board may make one or more Unit Schemes,". Therefore to create the desire to save, efforts are made by the UTI by offering different unit schemes and savings plans to the investing public.

Motives for savings and investment preferences of each individual investors are different. Therefore in order to cater the various needs of different investors, the UTI has formulated the following important unit schemes and saving plans.

Unit Schemes:

(1) Unit Schemes of 1964.

(2) Unit Schemes of 1971.

(3) Capital Units Schemes 1976.

(4) Capital Gains Unit Scheme (1983).

(5) 5 Year Monthly Income Unit Scheme (Thirteen Series).

(6) Growing Income Unit Scheme. (GIUS)(Six Series)

(7) Mutual Fund Unit Schemes 1986 (Maharashtra)

(8) Indian Fund Unit Schemes 1986.

(9) Deferred Income Unit Scheme.

(10) Capita Growth Units Schemes 1991 (Master Gain)

Saving Plans:

Under the Unit Scheme 1964 the Trust has formulated following saving plans :-

i) Reinvestment Plan 1966.

ii) Voluntary Saving Plan 1969.

iii) Children's Gift Plan 1970.

iv) Childrens Gift Growth Fund 1986.

v) Unit Linked Insurance Plan (ULIP) 1971.

vi) Master Equity Plan.

REFERENCES:

(1) Koutilya's "ARTHASHASTRA".

(2) Keynesian Theory of Income and employment.

(3) Indian economy ~~(18th edition).~~

Problems of Development and Planning (18th Editi

by A.N. Agrawal. Page No. 182.

Published by V.S. Johri, Wiley Eastern Limited, New Delhi.

(4) Keynesian Economics an introduction

by R.D. Gupta.

CSO: Quick Estimates Feb. 1992.

(5) Report on Currency & Finance R.B.I. 1989.90.

***