

Foreign Aid and Domestic Savings in India - An Empirical Study

K. Badri Narayanan

INTRODUCTION

Foreign aid is generally believed to supplement the available domestic resources in the recipient country. However, divergent views have been expressed now regarding the impact of foreign aid on the domestic savings in an economy. On the one hand, it is maintained that the flow of foreign aid result in augmenting the domestic savings of the economy. The underlying assumption here is that foreign aid will be productively invested in a recipient country, which in turn will increase national income through multiplier. Given the marginal propensity to consume, an increase in national income is likely to enhance the size of the domestic savings. On the other, it is held that aid flow into the economy will dampen the efforts to mobilise savings in the recipient country. In other words, it is maintained that there exists a negative relationship between domestic savings and foreign aid.

In the Indian context, some of the empirical studies show an insignificant contribution of foreign aid to domestic savings, whereas few others indicate a negative relationship. The aim of the present paper is to make a time series analysis with a disaggregated approach to study the relationship between foreign aid and domestic savings in the Indian economy for the period 1961-81, a longer period when compared to the earlier studies and such a disaggregated approach has not been dealt with by the earlier studies.