

1. INTRODUCTION

1.1 Income, saving and investment are three key variables of the economy of a country. While investment is the *sine qua non* of the economic development, it is saving which provides the wherewithal for investment. The level of income is also an important variable as it determines saving and investment whereas past investment in capital goods in turn determines the present level of income. Saving appears to be a crucial variable, indicating the capacity or willingness of an economic unit to forgo current consumption and prefer higher level of future consumption (*via* increased productivity and income) by channelling a part of the resources to capital formation. The low level of income and economic stagnation in underdeveloped economies are attributed to meagre stock of capital per head of population and the low rate of capital formation. In view of the crucial role played by saving in a developing economy, detailed study of its magnitude, the shares of different economic entities within the economy, propensities of these entities to save, the forms in which these savings crystallize in investment goods etc. is useful for planning purposes.

The totality of saving (or investment) of a country is generally identified as originating from three distinct saver groups or sectors. These are individual (or household), business and Government. A given sector is by no means homogeneous but this is the minimum division required for analytical purposes. For example, the household sector includes farm households, unincorporated business enterprises (sole proprietorships or partnership) engaged in manufacture, trading and other types of business activity and other households engaged in services in farm or non-farm activity. The saving propensities of farm enterprises, unincorporated business firms and individuals engaged in services differ substantially. These propensities of different types of entities together with their shares in total household income determine the contribution to saving (and investment) by the household sector.

The National Council of Applied Economic Research has built up sectorwise estimates of saving in India for a period of 12 years from 1950-51 to 1961-62.¹ The household sector appears to contribute as much as 80 per cent of saving. The business sector (corporation and co-operative societies) contributes about 5 per cent while the Government sector about 15 per cent of the national saving. Although the

¹ *Saving in India 1950-51 to 1961-62*. National Council of Applied Economic Research, New Delhi (1965).