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# FACTORS DISCOURAGING SAVINGS IN ASIA

by

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University of Wisconsin/
AID Project on "Economic
Interdependence in South-
east Asia"
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# Factors Discouraging Savings in Asia


## Summary

This paper attempts to answer two questions regarding capital formation in Asian countries: (1) why private households are reluctant to save through established institutional means; and (2) why there is a flight of capital from the region.

The findings reveal several paradoxes. On the one hand, the propensity to save in Asia is fairly high, but on the other, savings on a national scale are comparatively low. Again, there are indications of a rate of expansion of consumption which i s not necessarily dependent upon the extent of growth of production. Finally, foreign capital is unquestionably entering the region's economy, yet considerable local capital is seeking outlets elsewhere.

Both problems cited above--capital flight and the private sector's reluctance to engage in institutionalized savings--are discussed in terms of nine causal factors: the general effects of wars, consumption policy, and inflation; and the specific effects of tax enquiries, distrust, religion, tradition, technical difficulties, and the lack of stock exchange facilities. The effects of domestic interest rates and foreign savings rates remain unclear.

Pending further studies which might reveal in more detail the various causes of the shortage of savings in Asia, the paper offers one possible solution to the present difficulties: forced savings by means of a required social insurance plan.


## I. Questions and Problems

The cases of Japan during the Meiji Restoration (1868-1938) and

Communist China today clearly demonstate the possibility of mustering a high rate of domestic savings in Asian countries, regardless of their economic systems or their stages of development. While existing levels of savings may vary considerably, there remains a potential for the mobilization of further savings, whether voluntary or forced. Further, some private households retain their surplus funds in the form of hoards, and these can be converted to institutional savings,[1] to the benefit of national economic development.

The major question is how to increase domestic institution savings in general, and the savings of private individuals (including households and corporations) in particular, and this may be divided into the following sub-problems:

1. What is the present savings situation? How much of the region's national income has been put into savings to date?

2. What is the potential national surplus that can be mobilized for investment? What is the Asian propensity to save say, as compared to the developed countries?

3. What are the factors which at present discourage institutional savings in Asia?

4. What possibilities exist for using already existing institutions to improve the present situation?

5. What chances are there that intervention by some international agency might improve the situation?

6. What other remedies exist?

## II. The Facts

The data given in this paper are estimates and are presented for comparative purposes only. Given the emphasis on the private sector, and on domestic households in particular, the following facts are relevant.

Fact 1. Apparently, the propensity to save is as high in Asia as

in the developed countries (see Table 1). Generally, people try to save, whether their incomes are low or high. Thus, the possibility always exists of increasing private savings, either through the adoption of encouraging measures or through the removal of hindering measures.

Fact 2. The major source of national savings in Asian countries is domestic households and corporations (see Table 2), with the following exceptions: (1) Mainland China, where the government absorbed virtually all private savings; (2) Taiwan and South Korea, where foreign investments and foreign aid were swelled, as a result of the military and political situation; and (3) the Philippines and Pakistan, where the causes will require further analysis. The statistics also suggest that, in normal times, domestic sources of savings are more reliable than foreign sources.

Quite incidentally, Table 2 covers the first ten years of Communist China's economic development, during which the first five year plan (1953-57) was completed, when total foreign aid was estimated at only 1 percent of gross national product.[2] By way of comparison, India received 1.5 percent and Pakistan 1.8 percent during the same period.

Fact 3. Apparently, some capital flight occurred from countries where uncertainty existed as a result of government change, such as Ceylon and Malaya-Singapore (Table 2). The relevant dissavings probably went to other countries within the Sterling Bloc (London, Hong Kong, India, etc.). In addition, it is generally accepted that there were many unrecorded cases of capital flights from one country to another, both within and without Asia, particularly from those countries where rigid foreign exchange controls existed.[3]

Fact 4. In general, the lot of Asian countries is that of poverty. In 1957, the per capita national income of Asia as a region was less than

TABLE I: The Propensity to Save in Developed and Underdeveloped Countries, 1959-60

| Country | Total National Savings as a % of National Income | Percent of Total National Savings | | | Individual Savings as a % of disposable Personal Incomes* |
|---|---|---|---|---|---|
| | | by government | by corporations | by individuals | |
| Japan | 35 | 30 | 25 | 45 | 19 |
| Burma | 12 | 44 | 56 | | 14 |
| Taiwan | 16 | 52 | 46 | | 6 |
| South Korea | 8 | 52 | 48 | | 6 |
| Philippines | 4 | 52 | 87 | -39 | (-) |
| Britain | 13 | -3 | 59 | 44 | 5 |
| France | 15 | 38 | 16 | 46 | 6 |
| Canada | 12 | 15 | 26 | 59 | 7 |
| U.S.A. | 10 | 26 | 20 | 54 | 7 |
| Denmark | 21 | 41 | 26 | 33 | 10 |
| Australia | 17 | 42 | 58 | | 10 |
| Netherlands | 26 | 28 | 20 | 52 | 13 |
| Austria | 21 | 35 | 8 | 58 | 13 |

*The definition of "individuals' propensity to save" is the proportion of individual savings to personal disposable incomes.

Source: This table is, with some re-arrangement, taken from a study published by the Oriental Economist (October 1962), Tokyo, originally based on the UN Yearbook of National Account Statistics. See Table 5 for comparison.

TABLE II: Sources of National Savings as a Percentage of GNP, 1950-59

| Countries | I Net Total Savings | II Government Savings | III Foreign Savings | IV Domestic Private net Savings I - (II + III) |
|---|---|---|---|---|
| Japan | 20.7 | 6.8 | -0.2 | 14.1 |
| Burma | | | | |
| 1950-59 | 13.7 | 2.4 | 0.1 | 11.2 |
| 1960-62 | 11.5 | 4.5 | 0.9 | 6.1 |
| China Mainland | 11.3 | 18.5 | 1.0 | -8.2 |
| Taiwan | 11.4 | 0.6 | 7.5 | 3.3 |
| Thailand | 11.1 | 0.8 | 1.8 | 8.5 |
| India | 10.0 | 1.2 | 1.5 | 7.3 |
| Ceylon | 9.8 | 4.3 | -0.6* | 6.1 |
| South Korea | 5.6 | -3.6 | 9.8 | 2.4 |
| Malaya & Singapore | 7.3 | 2.5 | -10.2* | 15.0 |
| Pakistan | 4.3 | 1.9 | 1.8 | 0.6 |
| Philippines | 3.6 | 1.3 | 1.6 | 0.7 |
| Indonesia | 3.2 | -1.8 | 0.4 | 4.6 |
| Singapore 1956 | 10.8 | 2.8 | 1.6 | 6.4 |

*These figures include the capital and savings of the local government.

Source: Data from Economic Survey of Asia and the Far East 1963 (UN, ECAFE, 1962 (Tables 2-1 and 2-10), except for the following: (a) Singapore 1956 (see Table 9). (b) Burma, for 1960-62, estimated from the Yearbook of National Account Statistics 1963 (UN, New York), 1964. There are some doubts concerning Burma's 1950-59 figure (believed to be over-estimated). The 1960-62 estimate has already been reduced by some 45%, while estimates of potential savings for 1962-64 amount to only 4.4% of national income (see Table 4).

3 percent of the national income of the U.S. Thus, even if Asian people demonstrated the same propensity to save, savings there would be less than those in other countries (see Table 3). Table 4 further demonstrates the very small surplus for savings which exists in most Asian countries.

From the above, we can fairly judge both the quantitative and qualitative prospects for future savings in Asia. Clearly, the level of savings in Asia may be improved qualitatively, although the absolute level of increase will be small until there is a considerable rise in national production. But the problem of increasing over-all production, and thereby mitigating the general level of poverty, is clearly beyond the scope of this paper. We wish only to indicate the best method for improving the qualitative situation, and specifically, for determing what factors may be discouraging domestic savings in Asia at present.

## III. Some Observations

Leaving off Japan, which may be considered at least a semi-developed country, it would appear that, with the exception of Mainland China, considerable funds remain in private hands which can be channeled through institutionalized savings for national investment and development.

Observation 1. Singapore and Malaya experienced repeated over-subscription to common stocks issued in local capital markets during 1962-64, as noted by the Central Bank of Malaysia in its 1964 Annual Report (p.37). These stocks and shares, which were issued by newly formed local companies organized by internationally known establishments (such as Shell, Esso, Dunlop, etc.), had even fetched a premium as high as 100 percent within a week of their issue. The subscribers were mainly "private households" (including salaried employees and corporations). There were so many

Table III: Per Capita National Product, Foreign Trade, Government Debt, and Currency in Circulation, in Developed and Underdeveloped Countries, 1964

| | Per Capita in U.S. $ (Official Rate) | | | | | | Per Capita Currency in Circulation |
|---|---|---|---|---|---|---|---|
| | National Product | | | Government | Foreign Trade | | |
| | 1961 | 1964 | 1963 | Debt | Export | Import | U.S. $ (free rate) |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Laos | 48 | ---- | 87 | 5 | 0.5 | 15.0 | $ 1.35 |
| Indonesia | 52 | ---- | 80 | 14 | 7 | 5 | 1.44 |
| Nepal | 46 | 63 | 59 | N.A. | 4 | 6 | 6.26 |
| Burma | 62 | ---- | 72 | 19 | 10 | 11 | 4.50 |
| China (mainland) | 74 | ---- | ---- | 3 | 2 | 1 | N.A. |
| China (Taiwan) | 152 | 221 | 169 | N.A. | 34 | 33 | 8.99 |
| Pakistan | 68 | 77 | 81 | 16 | 4 | 9 | 5.55 |
| South Korea | 72 | 77 | 114 | 16 | 4 | 14 | 2.36 |
| India | 68 | 90 | 86 | 33 | 4 | 5 | 6.93 |
| Viet Nam | 156 | ---- | 114 | 20 | 3 | 19 | 7.26 |
| Cambodia | 105 | ---- | 127 | 4 | 15 | 18 | 8.28 |
| Thailand | 91 | 120 | 106 | 16 | 21 | 23 | 11.90 |
| Ceylon | 137 | ---- | 142 | 71 | 36 | 38 | 6.21 |
| Philippines | 223 | 152 | 142 | 30 | 24 | 28 | 10.90 |
| Malaysia | ---- | ---- | 295 | 78 | 182 | 195 | 34.91 |
| Malaya | 261 | ---- | 280 | " | 118 | 110 | " " |
| Singapore | 456 | ---- | 499 | " | 653 | 805 | " " |
| Japan | 498 | 725 | 626 | 30 | 69 | 82 | 53.16 |
| Ethiopia | 38 | ---- | 48 | 3 | 5 | 6 | 3.84 |
| Haiti | 67 | ---- | 80 | 15 | 8 | 9 | 3.72 |
| Nigeria | 85 | 67 | 93 | 7 | 10 | 12 | 4.64 |
| Brazil | 114 | 124 | 196 | 65 | 18 | 16 | 6.18 |
| Colombia | 278 | 265 | 292 | 51 | 35 | 39 | 16.08 |
| Venezuela | 1,059 | 757 | 728 | 51 | 329 | 137 | 37.78 |
| South Africa | 480 | 840 | 492 | 242 | 84 | 134 | 20.49 |
| Yugoslavia | 331 | 375 | ---- | 49 | 46 | 68 | 23.83 |
| U.S.S.R. | 742 | 1,253 | ---- | 35 | 34 | 32 | 336.70 |
| Turkey | 211 | 259 | 233 | 64 | 13 | 17 | 15.60 |
| Portugal | 245 | 317 | 321 | 71 | 52 | 76 | 60.21 |
| Ireland | 695 | 918 | 797 | 589 | 219 | 342 | 53.35 |
| Israel | 777 | 1,184 | 1,111 | 438 | 148 | 330 | 76.75 |
| U.K. | 1,412 | 1,688 | 1,564 | 1,561 | 228 | 286 | 124.40 |
| W. Germany | 1,396 | 1,774 | 1,635 | 142 | 279 | 251 | 120.12 |
| Switzerland | 1,673 | 2,213 | 2,002 | 224 | 477 | 650 | 431.35 |
| New Zealand | 1,613 | 1,818 | 1,747 | 1,030 | 413 | 370 | 84.57 |
| U.S.A. | 2,848 | 3,221 | 3,033 | 1,649 | 138 | 105 | 181.08 |

Source: (1) From Pick's Currency Yearbook 1962, p.27, except Malaya, which was estimated from Economic Survey of Asia and the Far East 1964; and Singapore, which was a government figure, published in Economic Development Board Annual Report 1963, p.3 as Malayan $1,368. 2, 4-7 are all from Pick's Currency Yearbook 1964-65. (3) from ADB Report (1965), No.137, except Singapore's, which was a government figure, as Malayan $1,498 (Economic Development Board Annual Report, 1963). Columns 1,2, and 3 do not agree and therefore are meant for comparison purposes only.

Table 4: Estimates of the Savings Potential of Asian Countries

| Country and Year | A National Income | B Private Consumption | C Government Consumption | D Left-over as Savings A - (B+C) | Possible % of A |
|---|---|---|---|---|---|
| Burma (million) | | | | | |
| 1962 | 6,521 | 5,258 | 1,029 | 234 | 3.6% |
| 1963 | 6,916 | 5,363 | 1,079 | 474 | 6.9 |
| 1964 | 6,500 | 5,154 | 1,176 | 170 | 2.6 |
| Ceylon (million) | | | | | |
| 1962 | 6,037 | 4,954 | 995 | 88 | 1.5 |
| 1963 | 6,270 | 5,188 | 1,025 | 57 | 0.9 |
| Taiwan (million) | | | | | |
| 1962 | 58,367 | 48,896 | 12,722 | -3,251 | -5.5 |
| 1963 | 66,601 | 53,029 | 14,044 | -472 | -0.7 |
| India (thousand million) | | | | | |
| 1959 | 129 | 116 | 10 | 3 | 2.3 |
| 1960 | 141 | 126 | 11 | 4 | 2.8 |
| South Korea (thousand million) | | | | | |
| 1962 | 258 | 244 | 50 | -36 | -13.9 |
| 1963 | 345 | 319 | 55 | -29 | -8.4 |
| Malaya (million) | | | | | |
| 1961 | 4,800 | 3,818 | 851 | 131 | 2.7 |
| 1962 | 5,049 | 4,012 | 914 | 123 | 2.4 |
| Philippines (million) | | | | | |
| 1962 | 12,959 | 11,597 | 1,420 | -58 | -0.5 |
| 1963 | 14,577 | 12,945 | 1,649 | -17 | -0.1 |
| Thailand (million) | | | | | |
| 1962 | 54,536 | 45,061 | 5,742 | 3,733 | 6.8 |
| 1963 | 57,863 | 49,952 | 5,776 | 2,135 | 3.7 |
| Viet Nam (million) | | | | | |
| 1961 | 70,906 | 71,390 | 15,245 | -15,729 | -22.2 |
| 1962 | 79,805 | 79,579 | 19,713 | -19,487 | -24.4 |
| Japan (thousand million) | | | | | |
| 1962 | 15,414 | 9,964 | 1,752 | 3,698 | 24.0 |
| 1963 | 17,662 | 11,4[illegible] | 2,088 | 4,093 | 23.2 |
| Australia (million) | | | | | |
| 1962 | 6,347 | 5,106 | 818 | 423 | 6.7 |
| 1963 | 6,991 | 5,440 | 918 | 633 | 9.0 |
| New Zealand (million) | | | | | |
| 1962 | 1,249 | 935 | 198 | 116 | 9.3 |
| 1963 | 1,368 | 990 | 211 | 167 | 12.2 |

Note: All figures are in national currencies as specified.

Source: UN, ECAFE, Economic Survey of Asia and the Far East 1964, p.233 (Figures under A,B, and C). Figures under D are deduced from A,B, and C.

applications that the new companies had to settle the allocation of shares by lot and limit each lot to some percentage of the amount applied for. All applications were accompanied by cash, which required a considerable refund as a result of over-subscriptions. It is interesting to note that this phenomenon of over-subscription, which caused shares of face value of $1 to immediately fetch from $1.20 to $2.20 in the open market, applies to common stock only, and not to the interest-bearing debentures of these same companies. During December 1965, both Shell and Esso (local) common stock fluctuated in the Singapore and Kuala Lumpur markets at from $1.90 to $2.20, but their debentures remained steady at $1.00.

Observation 2. Private savings which are deposited in foreign countries are often recalled, whenever home investment appears more profitable, particularly within the Sterling Bloc countries (i.e., the institutionalized savings in London and Hong Kong owned by private parties residing in Asia). Hong Kong is renowned as the center of free-market trading for all Asian currencies and may therefore be assumed to hold considerable portions of these savings.[4]

Observation 3. There are signs of capital flight, whether recorded or unrecorded, both among and away from Asian countries. For examples, remittances through the black market from Indonesia, Burma, Viet Nam, the Philippines, and so on, to Hong Kong (which has been occurring for many decades), may remain in Hong Kong or may be re-routed to Europe and North America or to India, Mainland China, or Taiwan. To a lesser extent, there are also unrecorded remittances from Singapore-Malaya and Thailand to Hong Kong.[5] Most of these funds could be turned into domestic institutionalized savings, if the factors causing capital flight were removed.

Observation 4. The following forms of private household hoarding might be turned into institutionalized savings: (a) local banknotes hoarded in safe deposit boxes; (b) local banknotes under mattresses; (c) hoarded foreign currencies (e.g., U.S. dollars); and (d) hoarded gold and jewelry.[6]

Observation 5. At present, private loaning and borrowing activities, commonly known as "money associations" or "rotating credit associations," may consume as much as 5 percent of the personal disposable income of participating members.[7] These too could be mobilized for institutionalized domestic savings.

Observation 6. The public lotteries presently operated by some Asian governments prove to be quite profitable. In addition, many private (and illegal) lotteries occur.

Observation 7. In any country with a free economy system, there will be some people who are richer and who therefore can save some of their income. Luxury and waste are always visible. With a controlled economy, Communist China has proved that, despite poverty and international blockade, domestic savings can be mobilized for capital formation. Under different political systems, the choice of methods and the amount of institutionalized savings anticipated may be different, but the potential exists.

## IV. Some Non-Causal Factors

The United Nations Economic Commission for Asia and the Far East (ECAFE) studied Asian savings problems in 1950-59, without coming to any conclusions as to why people chose to save or not to save. However, it did conclude that the following factors did not explain disparities in

national savings:[8]

(1) Inequalities in the level of per capita income

(2) Rate of population growth

(3) Level of exports or intensity of foreign trade.

These conclusions are here verified, to some degree, in Tables 1 to 5.

If 10 percent of national income is considered an "adequate" rate of domestic savings, then many Asian countries will fall below standards (see Table 2 above). If aid or foreign savings are excluded, then all except Japan will fall far below "adequate" levels for a long time to come (see Table 4 above). Although there is no conclusive proof that the propensity to save among Asians is below that in developed countries (Table 1), the actual quantity of savings in Asia will still be comparatively low, because of the general poverty in Asian countries (see Table 3 above).

Thus, Asian countries must not only try to increase the propensity to save among their people, but also must attempt to plug up all the loopholes through which domestic savings presently escape.

It should be noted that different causes may explain the situations of different countries at different times. Certain factors may be laid down as general causes, while others are specific to a given time in a given country. The analysis below considers three general and six specific causal factors.[9]

## V. Some General Causal Factors

### Wars and Near-Wars

This first of the general causes applies to more than half of the seventeen Asian political units listed in Table 3. Undeclared but actual shooting wars are occurring in Borneo, Viet Nam, and the Indo-Pakistan border at the time of this writing. This factor helps to explain the

flight of capital to Hong Kong from other Asian countries.

War usually intensifies the age-old habit of hoarding gold. However, the general theory that "war will encourage defense industries and thereby national economic development" cannot be generally applied in Asia, because (a) most if not all military weapons are imported, so that "consumption" does not benefit domestic production; (b) further, most of the weapons used are too technologically advanced to be produced at home in the near future; and (c) modern wars within one's own boundaries are too destructive to allow domestic industrial development, with or without foreign aid.

Raising Living Standards

While the Keynesian "consumption-oriented" economic theory may be applicable to Japan, there is little indication of its relevance for the rest of Asia, which possesses no excess industrial capacity lying idle. Throughout Asia, most if not all politicians have promised to raise national standards of living without reference to the necessity for raising national productivity and industrial production. Given such a promise, the mass of the population, whether or not they are directly influenced by the "demonstration effect," may eventually try to keep up with the "Euro-American Joneses" as a national policy and thereby become a country with a 20th century consumption standard supported by a 19th century production base.[10]

On the other hand, Communist China has adopted the opposite theory, that of "tightening the belt for the sake of development," and has successfully completed its first five year industrialization plan, despite a low standard of living.[11] The history of Japan during the Meiji Restoration

Table 5. Propensity to Save in Selected Asian Countries, 1950-59

| Country | Percent of Gross National Product: Disposable Income of Households | Percent of Gross National Product: Gross Savings of Households | Household Savings as a % of Disposable Income |
|---|---|---|---|
| A. (including private corporations) | | | |
| Burma | 76.6 | 9.2 | 12.0 |
| Taiwan | 76.3 | 4.0 | 5.3 |
| South Korea | 87.1 | 3.1 | 3.5 |
| B. (not including private corporations) | | | |
| Ceylon | 83.7 | 4.0 | 4.8 |
| India | ---- | --- | 5.8 |
| Japan | 70.0 | 10.5 | 15.0 |
| Philippines | 83.7 | -1.3 | -1.6 |

Source: Economic Survey of Asia and the Far East 1961, Table 2-12 (UN, ECAFE).

Note: Category B can be considered pure personal savings. The propensity to save of the households is defined here as savings as a percentage of the disposable income of households.

(1868-1938) is also of interest, because domestic surpluses were saved and directed into capital formation, also despite a low living level.

Thus, this general cause may be considered somewhat questionable. For one, theory and policy have not always worked in Asian countries. Second, with little industrial base, Asian countries cannot increase national capital formation without foreign aid, particularly in view of rapid population increases. Third, even with foreign aid, some question still remains whether or not a policy of high consumption can really help developing countries (see below). And finally, it appears that a more dynamic consumption policy vis-a-vis national production is needed.

Inflation

Many Asian countries are experiencing inflation in one or more of the following forms: (a) uncontrollable inflation in conventional patterns; (b) disproportionate depreciation of national currency in the international free money market, as a result of questionable controls being applied to foreign exchange rates; (c) official devaluation of the national currency, whether by lowering the value of the national currency as a ratio of international exchange, by repudiating the national currency; or by discounting it as a result of government decree. Table 6 depicts the various forms of inflation encountered among Asian countries.

Inflation, as a general cause, can explain capital flight, the hoarding by private individuals, whether of gold, jewels, or foreign currency; the propensity to spend increases (to dissave); the discouragement of institutionalized savings such as long-term deposits, voluntary insurance, provident fund schemes, etc; and the participation in black market dealings (which creates more loopholes and leakages, thereby further

Table 6. Inflation in Asia, 1955-64

| Country | Purchasing Power of National Currency: Over-all Estimate 1955-64 | Price Index 1963 1958 = 100: All | Price Index 1963 1958 = 100: Food | International Market: Free Exchange Rate For US$ | International Market: Premium for US$, free rate 31 March'65 | Occurence of Official Devaluation of currency | No. of years since last devaluation |
|---|---|---|---|---|---|---|---|
| Indonesia | -99% | 1,254 | 1,276 | -99% | 3,500% | 8 | 11/12 |
| South Korea | -81 | 140 | 156 | -81 | 54 | 7 | 1/12 |
| Taiwan | -53 | 148 | 142 | -41 | 18 | 5 | 3 |
| India | -38 | 116 | 114 | -37 | 79 | 0 | 15 |
| Viet Nam | -31 | 119 | 119 | -63 | 386 | 3 | 3 |
| Japan | -28 | 127 | 131 | 12 | 5 | 0 | 15 |
| Cambodia | ---- | 130 | 122 | -60 | 214 | 1 | 9 |
| Laos | ---- | 256 | 325 | -50 | 358 | 2 | 3/12 |
| Thailand | -22 | 105 | 106 | 4 | 0 | 1 | 10 |
| Pakistan | -21 | 105 | 108 | -25 | 84 | 1 | 9 |
| Philippines | -18 | 117 | 124 | -30 | 96 | 2 | 4 |
| Burma | -11 | 99 | 101 | -54 | 263 | 0 | 15 |
| Ceylon | -10 | 104 | 97 | -49 | 215 | 0 | 15 |
| Malaya | -2 | 103 | 104 | -2 | 2 | 0 | 15 |
| Singapore | -2 | 103 | 105 | -2 | 2 | 0 | 15 |
| Hong Kong | -2 | 105 | 107 | 3 | 0 | 0 | 15 |
| U.S.A. | -14 | | | Self | Self | 0 | 31 |
| U.K. | -25 | | | 3 | 2 | 0 | 15 |

Source: Pick's Currency Yearbook 1964-65, except price indexes, which are from Economic Survey of Asia and the Far East 1964, p.273.

hindering domestic institutionalized savings).[12]

The experiences of the last two decades have brought about a bitter awareness of the lesson of inflation among Asian people. As soon as an inflation or evaluation measure is announced in one country, people in other countries hear of it and consider it a warning. "Who knows what will happen here," they ask. Tables 6 and 7 reflect the contagious situation which may break out and spread at any time.

## VI. Some Specific Causal Factors

### Income Taxes

Income tax systems are comparatively new to Southeast Asian countries. And, of course, many of the people cannot read or fill out income tax forms by themselves. Generally, income taxes have discouraged domestic savings, because prospective savers know that the records of interest paid are kept as permanent records by banks and other paying institutions, and because they are aware that it is their legal responsibility to report such income.

Savers encounter the difficulties of keeping written records and the possibility of penalties resulting from inaccurate figures, errors, and omissions in their reports. In countries where many people still cannot read or write the legal or official language, these are important. In addition, many prospective savers are reluctant to engage in institutional savings because of the difficulties of explaining the source of their savings, of furnishing bank records if the money came from abroad, and of satisfying the tax officers that the relevant income tax in connection with the sum saved has already been duly assessed and paid. What irks prospective savers most may be that the tax authority may at any time make inquiries

Table 7. Unrecorded Capital Movements in Asian Countries, 1964

| Country | Time | Basis | Value[a] (U.S.$) | Relevant items of the unrecorded dealings |
|---|---|---|---|---|
| Burma | 1964 | Year | $ 6,000,000 | Currency, payment for gold imported |
| Ceylon | 1964 | Year | 8,000,000 | Capital flight, also for gold imported |
| Hong Kong | 1964 | Daily<br>Daily | 3,000,000<br>500,000 | Dealing in U.S. currency<br>Dealing in gold |
| India | 1964 | Monthly<br>Year | 4,000,000<br>100,000,000 | Payment for imported gold<br>Dealing in currencies |
| Indonesia | 1963 | Year | 3,000,000 | Currency (others not included) |
| South Korea | 1964 | Year | 4,000,000 | Import-export (other not included) |
| Pakistan | 1956-1964 | Year Average | 30,000,000 | Currency and gold imported |
| Philippines | 1961-1964 | Year Average | 60,000,000 | Currency and gold imported |
| Viet Nam | 1962-1964 | Year Average | 14,000,000 | Capital flight and imported gold |
| Japan | 1963 | Year | 200,000,000 | Currency (others not included) |

[a]Free exchange rate.

Note: Active movement are also known to exist in Cambodia, Laos, Taiwan, Bangkok, and Singapore. In addition to those mentioned, markets include Mainland China, New York, and Paris.

Source: Pick's Currency Yearbook 1964-65, chapter on "Gold".

regarding income accruing far in the past, and the case will not be closed until the tax officers are satisfied.[13]

It is of course difficult to arrive at a quantitative estimation of the effects of this factor, but the recent announcements of the Government of India loosening some of the income tax rules, with a view to encouraging private institutionalized savings, can be taken as a reflection of the fact that some governments are aware of the difficulties and are attempting to remedy the situation.[14]

Distrust of Government Authority

In the past 20 years, every country in Asia has undergone a revolutionary change in government. Many of them have been subjected formerly to foreign governments. For better or worse, the changes since 1945 have inevitably affected the private property system, as well as official attitudes and policies toward private wealth. Virtually without exception, the political parties arising in Asia have declared themselves to be socialistic or semi-socialistic. Many Asian governments have adopted measures which caused the "propertied class" to distrust them, whether or not they were officially "Communist" or "Socialist." The results have resembled the spread of a contagious disease.

Even in those countries not officially Communist or Socialist, prospective private savers fear the following proscriptions: (a) the nationalization of savings institutions, banks, insurance companies, etc; (b) the supervision of all banks, including inspection of their records, by government officials; (c) the de-licensing of long-established banks on political grounds; (d) the imposition of various conditions on the operations of private bank accounts; (e) the enactment of new regulations

which bring recorded institutionalized savers into view as easy targets or victims; and (f) discrimination on the grounds of race, religion, nationality, political beliefs, birthrights, residence, etc., leading to one or more of the disadvantages listed above, particularly (d) and (e).

Generally speaking, history and experience have taught the people of Asia that politics and governments are unpredictable; that a new tax or measure can be imposed, based solely on the records of institutional savings. Thus, there is an at least subconscious sense of insecurity and distrust with respect to institutional savings in general and savings measures such as government bonds, public loans, debentures, and government equities in particular.[15]

Given the fact that, by and large, the richer people in Asian countries consist of various national minorities, this factor may go far to explain the lack of private institutional savings and the preference for gold hoards. Generally, whenever a distrust of government authority exists, excess monies will take the form of either "capital flight" or "capital flight into gold," both important causes of the lack of institutional savings at home.[16]

"Usury is a Sin"

In a special UN study on the role of savings and wealth, different scholars from Ceylon, India, Malaya, Hong Kong, Pakistan, the Philippines, and Viet Nam emphasized the importance of religion, whether Hinduism, Islam, Confucianism, or Buddhism, in influencing general attitudes regarding savings and the accumulation of wealth.[17] While this may be viewed as a general factor, it has special relevance when applied to the grass roots of society. After years of studying this particular problem

and its relation to domestic institutional savings, I am particularly convinced that the teachings of Islam is one of the specific factors explaining the lack of such savings among the relevant sectors of the population in Asia.

Here Islam resembles Medieval Christianity: usury is a sin. The Malay and Indonesian terms for interest actually mean "the flower from the money (wang bunga), reflecting exactly Thomas Aquinas' statement that interest is nothing, but "money begets money." On the other hand, in Chinese, there is one term for interest such as given by banks (lee-sech) and another for that charged by loan sharks or private money-lenders (yin-tsee-chien, literally, "the stamped son of money," or simply, "son of money"). For the Chinese, to receive interest from a bank is respectable, while to charge interest and receive "son of money" is disgraceful.

This is not to say than banks in Islamic countries do not charge interest on loans or do not pay interest to depositors. But when we come to peasant institutional savings, matters--and religious teachings--are different. This is particularly true of older women holding the family purse-strings. In Singapore today, there are more than 30 banking corporations, organized by more than 10 nations, with hundreds of branches scattered all over the island, but there is not a single bank or branch organized or managed by Islamic Malays. In Kuala Lumpur, the capital of Malaysia, there is only one commercial bank said to be Malay, but it is actually owned and run by non-Islamic Indians (though, as with the Chinese banks, they may be Malay or Malaysian by nationality).

In 1964, I encountered an Islamic Malay family who had lived in

Singapoe for two generations. The son, of college age, with a good English education, told me that his mother would not open a savings account in any bank, because she believed that to receive interest was a sin. I told the son that there might not be any "interest" for their savings or deposits, but that a souvenir would be "given free" by the bank at the end of a certain period, such as a set of tools, a pen, etc., as agreed upon in advance. The mother still refused to open a savings account (although it was disclosed that she usually kept around $200 under the mattress at home). The son eventually opened a savings account in his own name; in due course, after the interest was paid, he told his mother, who replied that it was sinful to receive interest. She did not object to putting the money in the bank, but advised the son not to accept interest for doing so. Eventually, the son closed his savings account.

It is not clear whether the son's own religious scruples, the family scolding or nagging, or perhaps the need of pocket money was the cause of his closing the account. In any case, here is a case where at least $200 might be channeled into institutional savings (with accompanying development), if appropriate measures could be devised. And it occurred in a metropolitan and capitalistic city, covered by a network of branch banks, in a family where the father was a skilled worker and the son a graduate from an English-oriented high school. It may be an isolated case, but the mother's success in holding out against institutional savings may serve as a pointer toward the difficult task ahead.[18]

Traditionalism, or the Inertia of Traditions

Many traditional, even though petty, causes prevent the mass of the population from participating in institutional savings. These "social

infrastructures" can hardly be quantified, but they play an important role, particularly when taken as a whole. My own term, the "inertia of tradition," in fact reflects the battle between the old and the rising institutions, in both abstract and concrete forms. In those Southeast Asian countries still undergoing a transitional period, the following illustrations of social psychology and habit apply.

Distrust of savings institutions. Modern banks are organized along limited liability lines, which is a new concept to most Asians, and their history includes failures, defaults, and other elements of bad record. To the older generation (which holds the pursestrings), there appears to be no one responsible for any possible failure in these "limited companies," an unfavorable comparison with the old "financial houses" established and owned by well known wealthy families.

Tradition dies hard. Whenever there is a bank failure, particularly among those of local organization, the news spreads far. For instance, news of bank failures in India and Hong Kong in 1964-65 resulted in wild rumors in Singapore and Malaya. Distrust may be subconscious, but it nevertheless makes people hesitate to put their savings in banks and helps strengthen the hoarding of gold, jewelry, foreign currency, and even local currency. Here, education will take time.[19]

Keeping one's savings secret. In Asia, those who are "a little better off" suffer from "share-the-wealth" requests by relatives, school chums, villagers, clansmen, former colleagues, and others so distantly connected as to be undreamed of in capitalistic, individualistic, societies.[20] Of course, those who have a little savings can become hard-boiled and say no. But the nuisance remains and, on occasion, is accompanied by unkind criticism.

Those with a bit of surplus soon learn the way out: either don't save in cash or hoard the savings in secret. One alternative is to buy land; even hoarding is considered a better way of maintaining a secret savings than to be seen "often visiting banks." The organization and administration of savings institutions, which require that all accounts be recorded, checked, audited, and inspected by many different departments, certainly do not help the situation. Too many people of "unknown qualities" know the saver's secret.[21]

More store is set by such secrecy in Asia than in the developed countries because (1) people are poorer in Asian countries; (2) there is traditionally a greater communal or family obligation; (3) as a social system, particularly with respect to the protection of private property and wealth, capitalism is less accepted or even deprecated. Only in time, if at all, will there be widespread acceptance of a new social setting, whereby the mass of Asian population can feel at home with institutional savings.

A feeling of inferiority. Historically, most Asians viewed a banking house as an institution only for the very wealthy. Especially in countries with a history of colonialism, banks are not only imposing in appearance, but also retain certain traditional "impressive" aira.[22] Even now, although some have accepted the fact that it is not necessary to dress up to enter a bank, many still retain the old attitudes.

Despite repeated advertisements, many people still do not realize that banks will accept as little as one dollar to open a savings account. Even if they do, many of them shy away, considering themselves too small a saver to ever pass through the massive doors of the banks. The situation requires an organized program, either through mass communications or

salesmanship, to educate people to the realization that domestic savings, however small, can help national economic development. Such a program would also help bank employees to appreciate the role of small savers.

The preference for precious metals. Although the possession of gold for purposes of monetary transaction is forbidden in all Asian countries, owning gold in the form of personal jewelry is permitted. Certainly, the hoarding of gold is as old as man's knowledge of its existence, but tradition has been strengthened by the modern practice of induced inflation, gold control, gold nationalization, foreign exchange controls, etc.

Table 8 depicts free market gold prices in various countries. The higher price fetched in Asia, including the international free market of Macao and the virtually free market of Hong Kong, can only be explained by a stronger demand for the yellow metal, originating from and sustained by surrounding Asian countries in general, and the Indian sub-continent in particular.[23]

Technical Difficulties

"Saving for a rainly day" may be as old as human history, but the system of institutional savings is not. Most institutional savings devices, together with other modern financial and monetary practices--irredeemable paper currency, the income tax, deposits accounts, insurance, etc.--are the products of a highly developed commercial and industrial economy. In many Asian countries, whose traditional agrarian economies are still in a transitional period, many difficulties are encountered in the process of changing from traditional to modern savings patterns. They are primarily the by-products of social patterns, social change, and

Table 8. Gold Prices per Fine Ounce

| Market | Years 1955 | 1959 | 1964 | Reference (Gold) Free Ownership | Free Domestic Trading | Free Import | Free Export | Transfer of foreign exchange |
|---|---|---|---|---|---|---|---|---|
| Bombay | $50.75 | $48.75 | $54.50 | No | No | No | No | Controlled |
| Karachi | 51.75 | 49.00 | 54.00 | Yes | Yes | No | No | Controlled |
| Tokyo | 37.50 | 35.65 | 54.25 | Yes | Yes | No | No | Controlled |
| Shanghai | 43.00 | 41.00 | 43.00 | No | No | No | No | Controlled |
| Taipei | 44.75 | 38.60 | 43.25 | Yes | Yes | Yes | No | Controlled |
| Manila | 36.50 | 35.80 | 35.50 | No | No | No | No | Controlled |
| Hong Kong | 37.85 | 38.60 | 38.15 | Yes | Yes | No | No | Free |
| Macao | 37.60 | 38.40 | 38.75 | International Free Market | | | | |
| Zurich | 35.00 | 35.10 | 35.20 | International Free Market | | | | |
| Beirut | 35.12 | 35.18 | 35.34 | International Free Market | | | | |
| Madrid | 26.25 | 25.30 | 35.65 | Yes | Yes | No | No | Controlled |
| Cairo | 39.50 | 39.00 | 40.25 | Yes | Yes | No | No | Controlled |
| Paris | 35.85 | 35.55 | 35.45 | Yes | Yes | No | No | Controlled |
| Santiago | 35.65 | 36.60 | 35.50 | Yes | No | No | No | Controlled |
| Toronto | 35.15 | 35.10 | 35.17 | Yes | Yes | Yes | Yes | Free |
| New York | 35.15 | 35.25 | 35.25 | No | No | No | No | Free |
| (Official controlled price $35.00) | | | | | | | | |

Note: Prices are expressed in U.S. dollars, at free or black market exchange rates for the local currency, at the end of the year.

Source: Pick's Currency Yearbook 1964-65, pp.521 ff. Gold in the Manila market was traded nearest to the New York price, even lower than the free market of Macao. The reason suggested was that hoarding U.S. banknotes was more profitable than hoarding gold at a certain period in the Philippines (p.555).

technical faults, such as the following.

Illiteracy. Difficulties arise not only from the use of printed matter, account records, and savings documents, but also in procedures for identifying illiterate depositors who cannot sign their names. Identification by thumb print is technically impossible and administratively undesirable; yet many countries insist on this system for legal reasons.[24]

Language barriers. In most Asian countries, many dialects often very different from each other, are spoken, and many women and older people speak only their native tongue. In addition, some countries have more than one written language. Finally, the "legal" or official language (often English) may not be understood by the prospective savers.

Procedural red tape. Many old bureaucratic banking practices may still be found in Asian countries. Prospective savers sometimes are discouraged by requirements to furnish a reference or an introduction; to undergo a personal identity check similar to that required in police matters; or to fill out a multitude of forms and visit many counters when making a deposit or a withdrawal.

The above matters can be made even more difficult when handled by inexperienced or impolite clerks. It is apparent that, in addition to a campaign of general mass education on institutional savings, periodic training programs should be instituted for bank employees, with a view to encouraging small savings. But it will be some time before all these efforts can have much effect.

The Lack of Stock Market Facilities

Some of the problems cited above could be dealt with effectively by making it possible for small savers to buy shares in an enterprise,

particularly common stock. In pushing its 1952-57 land reform program, the Taiwan government successfully mobilized considerable surplus funds from landlords by paying part of the compensation for their land in the form of industrial stocks. The value of the "compensation by stock" amounted to US$ 50 million, and the device was in fact a "forced institutional savings" made workable only by the presence of stock market facilities.[25] As noted in section III above, the experience of Singapore and Malaya shows there is a high probability that domestic savings can be increased, if the domestic stock market can be expanded. A study of the domestic savings situation in the Philippines also suggests that the shortage of stock market facilities may be a cause of the lag in institutional savings.[26]

Many countries in Asia still have no stock market. Those who do often offer only limited listings--the Manila and Taipei markets have less than 100 issues, while Malaya-Singapore offers less than 200, and some of them virtually inactive. Further, some of the existing stock markets offer non-Asian stocks (British and American stocks are available in the Hong Kong, Singapore, and Kuala Lumpur markets). Paradoxically, this form of institutional savings amounts to capital flight.

## VII. Other Possible Causal Factors

There are two other factors which have some bearing on domestic savings, but their effects on the private sector, and particularly on the individual saver, are not clear. One is a domestic market factor, and the other an international political factor.

### Can Interest Rates Influence Domestic Institutional Savings?

Will an increase in domestic institutional savings follow a raise in interest rates paid by the savings institution? Two answers can be given.

(1) If the raise brings interest rates up to 1 or even 2 percent per annum, there will probably be little influence on the extent of domestic savings. The fundamental discouraging factors analyzed above have little to do with interest rates, and therefore, to the prospective saver, such a raise is not worth the trouble. Indeed, according to the Central Bank of China's Report (1964), savings could be increased even if there were a reduction in interest rates.

(2) But an abnormal raise, say, from 6 percent to 12 or more percent per annum (which is near but still below the black market usury rates), may have a definite positive effect. However, this is not an economic way of increasing domestic savings. Further, even such an abnormal raise will not solve some of the fundamental difficulties noted above, although it may reverse some of the capital flow abroad and even attract some foreign savings.

How Would Foreign Savings Affect Domestic Savings?

Foreign savings mean foreign aid in all forms--loans and investment. It is generally accepted that foreign savings can accelerate the recipient country's economic development. But some questions remain. (1) Will foreign savings help in the long run to stimulate domestic institutional savings? (2) Will they help in the long run to stimulate the private sector's savings? (3) Is there a danger that they might in time hinder the normal development of domestic savings in general, and private institutional savings in particular?

These are questions that deserve further research. One case study, on the economic development of Nepal, suggests that foreign aid may not always work out as expected.[27] True, foreign aid to Western Europe and Taiwan appears to have been very successful, but there are other cases in which it seems to have gone down the drain. Why do these differences occur?

Foreign aid may have harmful effects if (1) the recipient government takes it for granted, as a sort of political dole, and thereby does nothing to improve the domestic situation; (2) the politicians in power use it only as a means of tiding over a period of political difficulties; (3) the aid is used for the consumption of luxuries, to keep up with or even beat the Euro-American Joneses (loan interest must be paid, however); or (4) the aid causes the recipient country and society to develop a parasitic policy, thereby dampening the normal development of domestic savings.

This subject deserves further research and effort to discover some measure by which foreign savings can encourage domestic savings. Some relevant facts should be noted. (1) Marshall Plan aid was given to countries originally equipped with good industrial bases, more for purposes of rehabilitation than development; the same would apply to the aid given the Japanese economy in the 1945-63 period. (2) Communist China has received much less aid than is generally believed.[28] (3) The data presented in Table 2 above seem to indicate that, barring certain cases where military problems arose, foreign aid and/or investment have had no pronounced effect on domestic savings.

## VIII. Conclusions

From the foregoing analysis, we can see that there is a multitude

of factors which may have discouraged or hindered domestic institutional savings in Asian countries. Some of these factors may also explain the savings lag in other developing countries. Taken separately, the different factors may seem weak and unconvincing causes for such a complicated fact as a national lack of savings, but when combined they become formidable and decisive.

The qualitative analysis offered here is only a preliminary study. To weight the various causes cited, if this is theoretically feasible, will require further research. (Appendix A offers a brief list of some related topics on which further study seems desirable.)

But despite our lack of precision, we can see that the factors discouraging private savings are primarily institutional in nature: they are rooted in history, connected with national policy, and the products of the fact that the national economy is in a period of transition. They are therefore essentially beyond the reach of presently existing domestic commercial savings institutions. They are also beyond the reach of international agencies, unless such agencies are given abnormal powers, thereby becoming super-governmental and super-national institutions. Thus, the remedies must be carried out primarily by the national governments.

A study of savings in Singapore (see Table 9) has produced the following estimates: (1) total domestic institutional savings was 9.2 percent of national income, of which 6.4 percent came from the private sector and 2.8 percent from government. (2) The private sector's share may be further split into 3.5 percent from the re-investment of profits by private firms, and 2.8 percent from private households, including the forced savings paid to provident funds administered by government-appointed boards.

Table 9. Capital Accummulation and Sources of Savings, Singapore, 1956

(in U.S. dollars official rate)

| | | |
|---|---|---|
| **IN WHAT FORMS** | | |
| Imported goods used as capital | | $30,000,000 |
| Local manufactured capital goods | | 3,000,000 |
| Utilities, roads, houses, etc. | | 31,500,000 |
| Agriculture capital | | 500,000 |
| | Total | $65,000,000 |
| **FROM WHICH SOURCES** | | |
| Re-investment from profit of private firms | | $22,000,000 |
| From government funds | | 13,000,000 |
| From profits of government enterprises | | 4,000,000 |
| From provident funds (compulsory savings) | | 6,500,000 |
| Private voluntary savings (mostly households) | | 10,000,000 |
| Capital from abroad | | 9,500,000 |
| | Total | $65,000,000 |
| **OTHER RELEVANT ESTIMATES** | | |
| Total national income | | $600,000,000 |
| Total population[a] | | 1,400,000 |
| Per capita income | | 428 |
| Percentage of investment (savings) to national income | | 11% |
| Sources of savings: | Local private capital | 49% |
| | Local private capital (including forced savings) | 59% |
| | Foreign capital | 15% |
| | Government capital | 26% |

[a] Note: The island covers 230 square miles.

While the question of how to remove the factors discouraging private institutional savings in Asia constitutes a topic for further study, we may judge from Singapore's experience. The immediate practical measure best able to improve the situation may well be a forced savings plan, with a view to establishing a larger national social security fund.

Notes

1. By institutional savings, we mean herein all forms of savings or surplus funds which are put into established institutions and which can be rerouted into investment, directly or indirectly. These institutions include banks, finance companies, governmental setups, stocks, shares, bonds, debentures, insurance, building and mortgage societies, credit unions, co-ops, and post offices, etc., which handle money and savings in relation to investment. We do not, however, include savings which cannot undergo such rerouting, such as the hoarding of gold or banknotes in safe deposit boxes, etc.

2. With regard to the foreign aid received by Communist China, even this one percent may be an overestimate: (1) it may include assets already located in China, such as the portion of the Manchurian railway transferred from the U.S.S.R. to Communist China; (2) it may include the machinery removed by the U.S.S.R. in 1945-46 from Manchuria, after the Japanese surrender, and later transferred to Communist China; (3) it may include military aid or a portion of military equipment; and/or (4) it may include the interest charged on U.S.S.R. loans. This would be a good topic for research--the amount and extent of U.S.S.R. aid for Chinese Communist industrialization development during 1950 to 1960.

3. A systematic treatment of this subject may be found in Pick's Currency Yearbook 1964-65 (New York, Pick Publishing Co.). This subject will be dealt with at greater length in a later section of the paper.

4. See Pick's Currency Yearbook 1964-65, op. cit., pp.238 ff. According to a study covering the seven year period 1948-55, the total Hong Kong national income was about HK$ 18,100,000,000 (at a free rate of HK$ 5.90 to US$ 1, then, about US$ 3,237,000,000), while during the same period Hong Kong received a total of HK$ 7,100,000,000 as an "inflow of capital from abroad, plus net balance of invisible earnings, plus net balance of governmental and private transfers." In other words, the recorded capital inflow from abroad amounted to some 39.5 percent of national income for the 1948-55 period. See E. Szczepanik, The Economic Growth of Hong Kong (Oxford: Oxford University Press, 1958), p.183.

It should be noted that, compared to the 1948-55 period, Hong Kong now enjoys more "prestige" as "a haven for flight capital" vis-a-vis the situation of Southeast Asia; and there are "unrecorded" inflows of capital yet to be added. In its Annual Report of 1964 (p.106), the Central Bank of the Philippines concluded that the Manila spot selling rate of pesos in terms of U.S. dollars was in fact controlled by the "Hong Kong-U.S. dollar-Philippines Peso" cross-rates, with some influence from the Hong Kong-London rate.

5. Pick, op. cit., under the headings of various Asian countries.

6. In due course, we will discuss the various forms of hoarding. For gold, see Table 8.

7. These can be found in many countries. Taiwan has legalized and institutionalized this source of funds in a special form of savings bank.

8. UN, Economic Survey of Asia and the Far East, 1961, Chapter II.

9. This analysis is based primarily on my personal observations and studies as a bank economist for more than 10 years on various Asian countries. It reflects a preliminary study of "why" and "what are the factors," and leaves aside quantitative questions of "how much" has such-and-such a factor contributed, etc.

10. In countries where labor movements are supported by political parties, which is common in Asia, this is a very real danger. It is bad enough to have government spending based on such a policy, but it will become worse for the national economy when trade union leaders and the general masses think that it is sound and right to raise the general standard of living regardless of the capacity of national productivity. Eventually, an uninviting climate for private investment will be created, and a falling off of profits or even a loss of public investment will result.

A scholar from Ceylon summed up the situation of his country as follows: "The factors restricting savings may be summarized as follows: high consumption relative to income; partially accounted for by the 'demonstration effect' of Western countries, large family and responsibilities toward dependents, and a relative fixity of consumption levels that may not be easily reduced in the face of decline in export earnings. Most of the rural population is incapable of savings because of low productivity, low incomes, many dependents, high consumption function and lack of windfall profits in the peasant sector. The urban working population suffers from the same limitation of productivity and income and heavy obligation (and also high propensity to dissave due to the 'demonstration effect')." See the article by S.J. Tambiah, in Lambert and Hoselitz, eds., The Role of Savings and Wealth in Southern Asia and the West (Paris: UNESCO, 1963). See also K. Berrill, ed., Economic Development with Special Reference to East Asia (New York: St. Martin's Press, 1964), Chapter 4.

Table 5 notes a negative household savings in the Philippines. An interesting topic for research would be the extent of charge accounts, hire-purchase, and installment payment plans, etc., in the Philippines, as compared to other countries, and the extent to which the so-called "high standard of living" there helped to develop capital formation and domestic production. In the Philippines, household indebtedness to banks and financial companies has increased from 18,400,000 pesos in 1951 to 84,900,000 in 1960, or more than 400 percent in 10 years. See R.W. Hooley, Savings in the Philippines 1950-1960 (Manila: University of the Philippines, 1963), p.29. This may or may not prove that Filipinos are living beyond their "safe margin," but the propensity to consume (dissave) prevailing among the Filipino masses can be inferred by such statements as "the Filipinos are feast-loving" people; and such a habit may constitute a factor in explaining their lack of savings. See Lambert and Hoselitz, op. cit., p.317. This "low propensity to save" has also been treated

as one of the major problems encountered in the Philippine political economy today. See G.M. Kahin, ed., Government and Politics of Southeast Asia (Ithaca: Cornell University Press, 1964), p.756.

11. Yuan-Li Wu, The Economy of Communist China (New York: Praeger, 1965), esp. pp.79 ff., "The Principle of Low Wages."

12. A systematic treatment of this subject appears in Pick's Currency Yearbook, op. cit., and a summary of such activity is depicted in Table 7. It should be noted that all such dealings are unrecorded, and in fact illegal, in most of the countries concerned; it is therefore impossible to verify the data. However, the estimates reflect a rough picture of the activity; at least a portion of the dealings can be treated as capital flight.

13. As a bank economist of many years' experience, I have observed how this factor has discouraged private savings in Singapore, Malaya, and Indonesia. Probably, this is also true in Burma, Ceylon, India, and other countries with such tax systems.

14. To quote the documents issued by the Information Service of the Government of India (New York, November 12, 1965): "National Defense Remittance Scheme: apply to remittance from abroad...the recipients of such remittances are not liable to income-tax thereon. The income tax authorities will not question the sources of such remittances received from abroad through banking channels... "

"National Defense Gold Bond 1980 (Loan): provision of the Gold Control or Custom regulation will not apply with respect to gold in any form tendered as subscription to the Gold Bond and no proceedings will be instituted, nor any penalties levied, under the said regulations, with respect to such gold...Further, where such gold has been acquired out of income which has not been disclosed for the purposes of assessments, under the IncomeTax Act and other Central Direct Taxes assessments, such income, or the wealth represented by the corresponding assets, will not be liable to tax under these enactments in assessments for any assessment year made after 19 October 1965...The identity of persons subscribing to the Bonds and the particulars of the Bond will be treated as confidential and courts will be barred from requiring any public servant to give any evidence in the matter..."

15. A good research topic would be to determine the percentage of private households holding government securities, as compared to holdings of corporations and semi-public bodies, in developed and underdeveloped countries.

16. In the January 1966 issue of its Monthly Economic Letter, the First National City Bank of New York reviewed the gold situation of the world in 1965 and concluded: "...Flight into gold for fear of domestic monetary and political disorders was accentuated in some parts of the world...disturbing developments in the Indian subcontinent and the situation in Viet Nam led to increased hoarding in the Far East..." With

regard to capital flights see Table 7.

17. Lambert and Hoselitz, op. cit.

18. Another good topic for research: domestic private savings in Islamic countries; the measures to by-pass religious bias, short of a religious revolution of the Protestant type; or better still, how to utilize religious factors to increase domestic institutional savings.

19. I am of the opinion that the U.S. system, such as the federal insurance scheme guaranteeing savers up to a certain limit, can help.

20. Such "social obligations" are an institution, quite deeply rooted in many Asian countries. See Lambert and Hoselitz, op. cit.

21. As a banker, I have been often so informed by clients. Occasionally complaints were received from savers protesting that their deposit information was given out by bank clerks through careless telephone conversations. This entrenched habit of keeping secret one's money situation has aided the development of the "comradre system" in banking, particularly in the long-established non-Asian banks, whereby the individual savers were known only to the comradre on a personal basis, with or without any deposit document from the bank (savers had the receipts of the comradre, who was usually a man of means). The comradre would therefore become not only a sort of trustee of the saver, but would essentially act as a kind of private savings bank. This is possible because of (a) personal factors (dialect, language, acquintance, or friendship); (b) simplicity (the comradre acting as a one-man bank); or (c) secrecy (the comradre knows that this is his responsibility). Under this "secrecy" system, the bank may have no records of individual savers' names, accounts, and transactions, or may know them only after a time lapse. The system is therefore subject to abuse of mismanagement by the comradre or his deputy (there was such a case in San Francisco in 1963, involving a comradre of a U.S. bank and the savings of Asians there). The comradre system is now dying out, but the problem remains.

22. For instance, stationing uniformed professional armed guards at the entrance and/or putting armed policeman inside and outside the bank.

23. It has been estimated that India accounts for more than half of the world market's supplied gold. One Indian scholar has explained the special value placed on gold by Indians as follows: (1) religion, because gold is considered the "metal of the gods;" and (2) gold is the only part of a woman's dowry she may keep as personal property after marriage--it cannot be taken away or shared as part of the family's common property. As a result, all women, and particularly mothers, try to put their savings into gold jewelry. See the article by M.S. Gore in Lambert and Hoselitz, op. cit., p.194.

However, since the highest prices obtained for gold in the Karachi and Tokyo markets, as well as Bombay, we can assume that the appeal of gold extends to other Asian countries, as well as India. Table 8 below also demonstrates the demand for gold in Communist China (both by the

government and the mass of the population, as reported in Pick's Currency Yearbook 1964-65, op. cit., p.537). Gold is more than ornamental: it is a reliable form of property which women can keep out of the control of their husbands. History has taught women, and peasant women in particular, that against an emergency, there is no more reliable possession than this precious yellow metal. The habit will die hard, if it ever dies at all.

24. The Chinese system of identification through personal seal(s), either in Chinese characters o Romanized into any language, is workable, but many countries do not accept the seal system or accept it only as supplementary evidence.

25. Tang and Hsieh, "Land Reform and Agricultural Development in Taiwan," in Froehlick, ed., Land Tenure, Industrialization, and Social Stability: Experience and Prospects in Asia (Marquette University Press, 1961). See also Hui-Sun Tang, Land Reform in Free China (Taipei, 1957).

26. Hooley, op. cit., pp.65 ff.

27. Eugene Eiholz, Foreign Aid and Politics in Nepal (Oxford: Oxford University Press, 1965), which reports research done in connection with AID.

28. UN ECAFE has estimated that, during the decade 1950-59, Communist China had a foreign savings (presumably entirely from the U.S.S.R.) of about one percent of her gross national product (see Table 2). Since these estimates may include military aid and transferral of properties already in China, or even properties removed by the Soviet Army immediately after the Japanese surrender in Manchuria, this figure may still be an over-estimate of actual help for economic development (see note 2 above). There is considerable disagreement on this subject, but most estimators consider that aid for economic development is much less than the official figures would indicate. Wu, op. cit., reported official U.S.S.R. aid to Communist China at 5.3 to 5.6 billion Chinese yuan (p.189), while gross domestic product during 1952-61 total 952 billion yuan (p.91, based on Table V-1). Taking the whole decade as a unit, foreign aid totalled 0.59 percent of Communist China's GNP.

## APPENDIX A

### Related Topics for Further Study

1. The extent of development of the consumer credit system in the Philippines and the role it plays in economic development.

2. Holders of government securities: institutions versus individuals (households).

3. Measures to encourage Muslims to save through savings institutions.

4. Measures to mobilize private loans and private lotteries with a view to increasing domestic institional savings.

5. Case studies of foreign savings in relation to domestic savings and national economic development (by country).

6. The amount and extent of U.S.S.R. aid, in connection with the Chinese Communist's industrial development, 1950-60.

7. Technical measures to encourage domestic private institutional savings (different topic and different country).

8. Non-resident institutional savings in Hong Kong.

9. Capital movements within Sterling bloc countries, with a special reference to London and Hong Kong.

10. Study of capital flight in a particular country in Southeast Asia.

11. Nationalization policies and capital formation (with special reference to domestic savings).

12. Technical measures to develop domestic savings along with foreign aid.

## APPENDIX B

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