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Economics of Growth and Development.(Module-2)

Role of Capital in Economic Development

Capital is the core of economic development. In simple words, capital refers to that part of the wealth of an economy which is utilized for further production of wealth. It includes all forms of reproducible wealth utilized directly or indirectly in the production of a large volume of output. A huge amount of capital is invested on the construction of irrigation schemes, production of agriculture tools, building of big dams and bridges, land reclamation machines, railways, airports, etc.

According to Colin dark, "capital goods are used for the purposes of production." A United Nations study states as, "further production of other goods," Prof. Simon Kuznet and Prof. Ragnar Nurkse Regarded that capital occupies a central place in the theory of economic development. They accepted its manifold role as given below:-

(1). Helpful in raising productivity per capita- Capital is helpful in raising productivity per capita as the stock of capital in an economy is closely related to the possibilities of effecting changes in the scale of technology of production.

(2). Method of Production- According to Bohm Bawerk, Capital makes possible the roundabout methods of production as there is a net gain in productivity as a result of using such methods. Rapid capital accumulation may further lead to an increased supply of tools and machinery per worker.

(3). Necessary for Implementation of Production- With rapid growing population, increased capital accumulation is a pre-requisite for expanding production and providing employment to the growing labour force.

(4). Capital and Public Utility services- Prof Lewis has noted less developed countries need very heavy expenditure on public utility services and infrastructure like road, railway, electricity and communications etc. In fact, these services require a large amount of capital.

(5). Capital and Population Growth- According to some economists, higher growth of population is an obstacle in the path of economic development. Therefore, capital is needed to control the population growth. Capital is required to adopt family planning techniques and other methods of controlling population especially in poor and less developed countries. At the same time capital is foremost requirement to meet the need of food, shelter and housing etc. in these countries.

(6). Capital and Natural Resources- Generally in underdeveloped countries, natural resources are underutilized or misused on account of the fact that these countries do not possess sufficient capitol. In this way, it is capital which leads to put the proper utilization of natural resources.

(7). Capital and Industry- Capital is the basic need for the development of industrial sector, It is required to adopt moderate and latest technology specially in underdeveloped countries. The mode of production is primitive and out dated. As a result, it adversely affects the productivity. Thus to accelerate the pace of economic development in industrial sector, capital is the key factor.

(8). Capital and Agricultural Development- Capital is also required for the development of agricultural sector. In most of the underdeveloped countries, more than 70% people are directly or indirectly dependent on this sector. Therefore, in poor countries, capital is needed for the development of irrigation, to control flood and for crop rotation.

(9). Technical Progress is Possible- Additional Capital is required to adopt new technology. Thus, capital leads to the progress of technology at the highest speed.

(10). Proper use of Human Capital Formation- Human capital formation depends on the people's education, training, health, social and welfare facilities for which sufficient capital is needed. Thus capital formation plays an extraordinary role in the qualitative development of human resources.

(11). High Rate of Economic Growth- The higher rate of capital formation in a country means the higher rate of economic growth, generally, the rate of capital formation is very low in underdeveloped countries in comparison to advanced countries.

(12). Lesser Dependence on Foreign Capital- in under developing countries, process of capital formation increases dependence on internal resources and domestic savings by which dependence on foreign capital is reduced with capital formation.

(13). Increase in Economic Welfare- By the increase in rate of capital formation, public is getting more facilities. Capital formation leads to unexpected increase in their productivity and income and this improves their standard of living. This helps in raising the welfare of the people in general. Thus, capital formation is the principal solution to the complex problems of poor countries.