FACTORS IN DEVELOPMENT

- Role of physical and human capital formation in economic development

+ Capital formation means addition to the stock of capital. It is a flow concept. Accordingly, capital formation may be defined as the process of adding to the stock of capital per year.

⇒ Prof. Todaro is of the view that "Capital formation / capital accumulation results when some proportion of present income is saved and invested in order to augment future output and income.

- New factories, machinery, equipment and materials increase the physical capital stock of a nation.

Similarly, investment in human resources can improve its quality.

- In other words of Colin Clark, "Capital formation refers to the net addition made in the existing stock of capital in a given period of time.

* It has two aspects

(i) Gross Capital formation :—

It includes both replacement investment and net investment.

(ii) Net Capital formation :—

Net investment is estimated by deducting depreciation from gross investment.

. It implies addition to production capacity of a nation.

PROCESS AND SOURCES OF CAPITAL FORMATION

(1) SAVING AND MOBILISATION OF SAVING

(a) Domestic Sources of Saving or Supply of Capital

(i) Voluntary Saving

(ii) Forced Saving

Taxation as a Source of Forced Saving

Inflation as a source of forced saving

(iii) Deficit financing

(II) EXTERNAL SOURCES OF SAVINGS
(SUPPLY OF CAPITAL)

ⓐ Foreign Aid

loans grants

ⓑ Terms of Trade

* ROLE AND SIGNIFICANCE OF CAPITAL FORMATION IN ECONOMIC DEVELOPMENT

(i) Capital formation ensures a sustained Rise in Output

(ii) Capital formation generates Employment

(iii) Capital formation facilitates Technical progress

(iv) Physical Capital formation prompts Human Capital Formation —

⇒ Expenditure Incurred on health, Education, Social service and Social welfare.

⇒ Prof. Kuznets says: —
Public charates and efficiency constitute the principal capital stock.
Efficiency of the worker increases by the investment made for education & health.

(v) Capital formation for Infrastructural Development

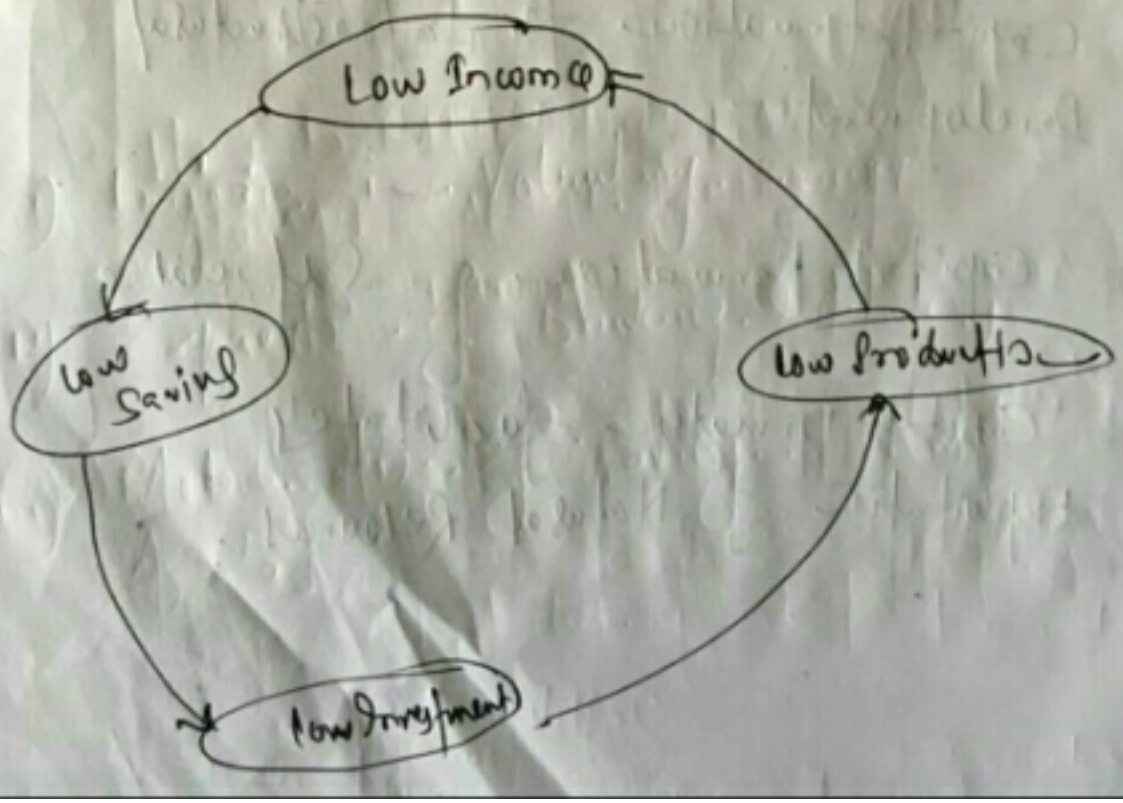
(vi) Capital Formation & Self reliance

(vii) Capital formation facilitates Exploitation of Natural Resources.

PROBLEMS OF CAPITAL FORMATION

(i) SUPPLY SIDE OF VICIOUS CIRCLE OF POVERTY

(ii) DEMAND SIDE of VICIOUS CIRCLE OF POVERTY



Causes Of Low Capital Formation In Less Developed Countries

(i) Low per capita Income

(ii) Large size of population

(iii) Inflation

(iv) Demonstration Effect

[Consumption Expenditure
V
Rate of Capital formation]

(Imported luxury goods) by affluent class.

The low level income group people imitate their way of life and start spending much of their income on expensive consumer durables.

(v) Lack of Investment friendly environment

(vi) Complex tax structure

(vii) Limited Extend of Market

(viii) Lack of Able Entrepreneurs

(ix) Low productivity

(Illiteracy, ill-health, low wages, low level of technical skills)

MEASURES TO PROMOTE CAPITAL FORMATION

(i) Increase in Voluntary Savings

(ii) Expansion of Banking Institutions

(iii) Mobilisation of Saving in Rural Areas

(iv) Forced saving through taxation

(v) Surplus of public Enterprises

(vi) Reduction in Non-Developmental Expenditure

(vii) Increase in per capital income

(viii) Price stability

(ix) Liberal Government policies

(x) Surplus through International trade.