

Investment Criteria

Criticism:

This present criterion has been criticised on the following grounds:

(1) The difficulty arises in estimating capital -output ratio in poor countries and comparing it with that of advanced countries due to lack of data. Hence, any criterion based on capital output ratio is likely to create practical difficulties.

(2) This criterion does not take into account the element of time. A particular project may be less capital intensive in the short run but may turn out to be more capital intensive in the long run.

(3) The supplementary benefits conferred by a project have not been taken into account while laying down this criterion. It is possible that a project may be more capital intensive but it confers important supplementary benefits on the economy which may outweigh its high capital cost. Thus the projects with low capital-output ratio have also got their importance for a developing economy.

(4) The employment argument in favour of less capital intensive projects does not hold good. A more capital-intensive project can also contribute substantially in providing more employment in the long-run.

(5) Labour intensive projects may generate more employment but they tend to reduce productivity. Hence, capital intensive projects are also quite important for underdeveloped countries if the level of output is to be raised substantially.

(6) The maximization of employment argument implied in this concept may hold good in short run. A capital intensive project may absorb little labour to start with, but may maximize the amount of labour per unit of investment in the long run.

(7) These techniques often produce sub-standard projects such products are often subsidised by Govt., and entail high social costs.

(8) The supplementary benefits of a project are not taken into consideration. It is possible that a project may be more capital intensive but it confers important supplementary benefits on the economy which may outweigh its high capital cost. Thus the

projects with low capital output ratio have greater importance for developing economy.