

MEASURING CAPITAL FORMATION

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THIS paper is divided into three sections, namely, (1) conceptual and statistical problems in the measurement of capital formation; (2) main national income aggregates and their relationship with gross domestic capital formation and (3) the scope of the operational definition of gross capital formation.

Section 1

Conceptual and Statistical Problems in the Measurement of Capital Formation

Capital has been understood and defined in different ways.² Its coverage varies with the interpretation of the nature and scope of the concept. For example, where buildings and machinery and equipment are invariably treated as capital, items like consumer goods for maintenance of workers, wine, growing trees etc. are also included in it by a few authors. A unique definition of capital for understanding the nature of economic processes is not possible. It is because the nature of economic process itself is not unique. We are always in the midst of a stream of multi-period planning³ which is subject to continuous changes and adjustments. A meaning or a definition is specific to the analytical purpose for which the concept is used. A thing is capital not by virtue of its physical properties but the nature of economic function performed by it.⁴

Capital is defined as a produced means of further production.⁵ In the context of multi-period planning it can be looked at as an interim

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² For concepts of capital one might see the following : Fisher : *The Nature of Capital and Income*, 1966 [5] Chapter 4; Bohm-Bawerk : *Positive Theory of Capital*, Book 1, 1921 [1] Chapter 3; and Solow : *Capital Theory and the Rate of Return*, 1963 [19].

³ A planning in which resources are applied at different dates in order that the results flow at some definite dates in the future. See Kirzner : *An Essay on Capital*, 1968, [10] p. 6.

⁴ Lachmann : *Capital and its Structure*, 1956 [13] p. vii.

⁵ Bohm-Bawerk : *Positive Theory of Capital*, Book 1 [1].