Chapter 5

THE RÔLE OF CAPITAL IN ECONOMIC DEVELOPMENT

BY

MAURICE BYÊ
University of Paris

I. INTRODUCTION

IN this paper I propose to discuss principles only.

(a) The Distinction between Development and Other Similar Concepts, in particular, Growth

The growth of a quantity is its increase. Growth of national per capita income is increase of national per capita income. The growth of an economy is generally characterized by growth of net national income per capita.²

Any economic system, for example a national economy, may experience growth either while its structure remains unaltered or while its structure changes. The development of an economy is its growth in conditions of changing structure. It is the transition from a structure with relatively low per capita productivity to a structure with relatively higher per capita productivity. An economy is fully developed when its structure is such that per capita productivity is as high as it can be with given national and world resources and given technical knowledge. In the contrary case we speak of an under-developed economy.

Thus, a poor economy does not necessarily mean an under-developed one. Nor is every economy under-developed which lags behind in growth. It is true that the problems of development cannot entirely be dissociated from problems of growth, because

¹ Translated from the French by Elizabeth Henderson.
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growth always implies some structural change. But developed countries are capable of strong growth with little structural change, while under-developed countries are capable of even modest growth only by means of considerable structural change.

This distinction, which is much the same as Perroux's, enables us to advance two propositions. First, the problems of the development of under-developed economies are very different from those of the growth of developed ones; and second, low per capita income is a very inadequate standard of classification. Not only are the development problems of the Middle East profoundly different from those of Latin America, but even within Latin America the differences between the various countries' economic and social structures are such that we cannot really speak of under-development in all cases, notwithstanding the fact that all these countries are definitely backward in growth.

(b) The Differing Roles of Capital in Economic Development and in Economic Growth

First of all, what are we to understand by capital? Any definition of capital is arbitrary and must depend upon the purpose at hand. If we mean by development the transition to a more productive structure, we must define capital as everything which increases the productivity of society. Besides investment goods in the proper sense of the term, capital must therefore include also durable consumer goods, such as housing, as well as services apt to promote technical advance, such as education. However much I regret having to disagree with an authority such as Kuznets, I cannot include military investment in my definition of capital, because its relation to social productivity is too uncertain. ¹

Second, are we to consider gross or net figures? It seems to me that since development is very often a matter of replacing existing equipment by better equipment, depreciation cannot be regarded as neutral. Depreciation policy is one of the aspects of the behaviour of firms and governments. For our purposes gross figures seem much more indicative than net ones.

(c) What is Structure?

For our purpose it will suffice to distinguish two concepts. In the perspective of the market, a structure is a set of proportions and