

1. DEFINITION OF LAND

Defining land, Marshall had written : "By the term land is meant not only land is the sense of the word but whole of the materials or the forces which nature gives freely for man's aid in land and water, in air, light and heat." According to this definition land consists of the following :

1. Upper surface of the crust, its properties and forests or other plants growing on it naturally.
2. Mountains, oceans, rivers, lakes, ponds and the things found in them.
3. Minerals found under the surface of the earth.
4. Climate, wind, sunshine, sunlight, heat etc.

Land includes all those materials and powers of the earth on the surface or within it which are given to man by nature without any cost. Therefore, H.A. Smith has remarked, "Land applies to all those gifts of nature which man uses in providing the things that satisfy his wants."

2. CHARACTERISTICS OF LAND

The following peculiarities of land distinguish it from other factors of production.

1. **Land is limited in supply.** An particular feature of land is its fixed supply. Other factors of production can be increased in supply to a greater or lesser extent. But it is impossible to increase land. This is because man cannot create land. He can improve the given supply of land by draining marshy land or irrigating deserts. Man can only clear land or change its use. He cannot increase the supply of land.

2. A free gift of nature. Land is a gift of nature given to man free of cost. Man has to spend nothing to obtain it. He has only to conserve it.

3. Land is not perishable. The land surface of the earth is not destructible. Modern science can radically change its character but cannot destroy it. It can go waste or barren, but is not destructible. It shall exist in one form or the other.

4. Heterogeneous nature of Land. All land is not of the same quality. It is fertile somewhere and barren or sandy or marshy at other places. Thus, land differ in fertility.

5. Land is immobile. Of all the factors of production land is totally immobile. We cannot transport land. However, the produce of land is mobile.

Besides this, land is mobile from the point of view of its use. Land can be transferred from agriculture to industry. However, it is geographically immobile.

3. PRODUCTIVITY OF LAND

The power of a particular plot of land to produce something is called its productivity. Other things remaining the same, greater the amount of produce per acre, higher is the productivity. The following main factors determine productivity of land.

1. Natural factors. Productivity of land generally depends upon its natural resources. For example, the slope of land, the chemical and biological properties of the soil, its climate etc. All these factors are basis to land productivity.

2. Human factors. Land cannot produce anything by itself. Man has to labour on it to produce for himself. Therefore, productivity of land also depends upon the knowledge and training of workers. A wise farmer can produce more from the same land than an untrained farmer.

3. Organisation. Productivity of land also depends upon the way other factors like labour and capital are used on it. In order to increase productivity of land trained workers, modern implements, scientific methods, good seeds, manure and dependable sources of irrigation are all activated together.

4. A passive factor of production. Land is considered to be a passive factor of production because it cannot grow the commodities as needed by itself. Without man's efforts, land is unable to produce the needed type of goods. In any case, its productivity is much lower.

5. Importance of location. An important factor is the value of a land is its location. Land near big cities is generally having much more value than land at a distance. Similarly, land near the roads or railways or big markets is higher-prices.

6. Alternative uses. Land use differs according to its productivity and location. Land near a city is used for higher while open area in the rural side is more often used for cultivation. Thus, land may be under different used depending upon its productivity.

7. Original powers. Ricardo considered land as having some original powers given by nature. These cannot be man-made. Land provides these original powers for man's help in producing food and new materials. But as more and more intensive cultivation of land takes place, there are smaller and smaller additions to total production even when the same is necessary. If all these are employed in the correct proportion, productivity of land is much higher.

8. Land development. Productivity of land is affected very favourably by land development measures like provision of well or tubewell irrigation, proper drainage, fencing and bunding.

9. Land laws and land relations. Who owns land is an important factor affecting land productivity. Ownership of land encourages a farmer to work harder and increase land productivity. If the tiller of the soil does not feel secure in his relation with land, he will not care to conserve its productivity.

10. Situation of land. Productivity of land also depends upon its location. Well-situated lands like those near the big cities or in industrial areas have a higher productivity.

11. Irrigation. In tropical climate, irrigation is a very important factor affecting land productivity. Progressive farming is impossible assured irrigation.

12. Availability of Capital. Land productivity depends much on the use of capital. With the help of improved seeds, chemical manures and machines, productivity can be increased. Therefore, intensive cultivation, where labour and capital are more important, gives a higher productivity.

13. Improvement in the art of agriculture. Productivity of land is determined by the art of cultivation. In traditional agriculture where modern science is not employed, yield per acre is low. In modern agriculture the use of machines, manures, tested seeds, rotation of crops and other such practices have increased land productivity to a large extent.

14. Social and economic conditions. Productivity of land also depends upon the socio-economic conditions in a country. The laws of succession and inheritance of equal land among the children of a landlord has led to the evils of sub-division and fragmentation of land. This has adversely affected land productivity. Economic factors like the availability of credit, development of means of transport etc. also affect land productivity.

15. State help. If a government disseminates agricultural information provides for irrigation and enacts legislation to remove the difficulties of farmers, then the productivity of land will increase. In less developed countries, it is not possible to develop agriculture without state help.

4. LABOUR - DEFINITION

Labour is any type of manual or mental activity done with a view to earning a reward. According to Marshall, "by labour is meant the economic work of man, whether with hand or head." Similarly, A.H. Smith remarks : "Labour includes all the efforts made by man to earn a living. Thus, not only a factory worker but even such people as teachers, lawyers, doctors and other office workers also put in labour.

The main features in the definition of labour are : (1) human work and not the work done by machines or animals ; (2) physical or mental work; (3) productive activity ; and (4) the aim of earning a reward. Thus, labour is all that physical and mental activity which produces goods and services. The activity is not meant for pleasure or for love's sake; rather it is for earning money that it is called labour.

Peculiarities or Characteristics of Labour

As a factor of production labour has the following distinguishing characteristics :

1. A human factor. The main peculiarity of labour is that it is a human factor. It has a will power of its own. If the employer does not treat the workers well, then labourers will not

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be faithful to the employer and with dignity.

2. An active factor. Labour is an active factor. It is not a passive factor. Therefore, labour

3. Labour is a human factor. That the agent of labour is human is evident in labour. While the product of labour is present for work

4. A person. A worker does not store. As such

5. Wealth. Savings to demand whatever the cost that workers are

6. A labourer. He is free to sell his labour. If he does not

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8. Variable. (a) supply of workers ; (b) demand at higher wages

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Factors of Production

be faithful to the employer. A labourer has human feelings, and therefore, must be treated humanly and with dignity.

2. An active factor. Other factors of production depend upon labour for their productivity. It is through labour that other factors are brought into the production process. Therefore, labour is an active factor of production.

3. Labour cannot be separated from the labourer. It is in the factor labour that the agent and the factor of production are the same. A labourer has personally to go and put in labour. While capital can be separated from the capitalist, a labourer cannot separate his labour from his person. Therefore, labour supply is limited to the number of hours a labourer can be present for work.

4. A perishable factor. Labour is more perishable than other factors of production. If a worker does not work for a day, then his labour hours are lost for ever. Labour cannot be stored. As such it is a perishable factor.

5. Weak bargaining power. Labourers are generally poor people. They have no savings to demand upon during periods of unemployment. Therefore, labourers have to accept whatever the employer gives them. It is because of their poverty and weak bargaining power, that workers are exploited.

6. A labourer sells his labour, not himself. A labourer is a citizen of the country. He is free to sell his labour anywhere at the available price. He does not become a slave thereby. If he does not find his work according to his interest, he leaves and finds work somewhere else.

7. A mobile factor. Labour is mobile. It can go from one place of occupation to another. It is less mobile than capital. But it is more mobile than land.

8. Variable supply of labour. Supply of labour has two peculiarities :
(a) supply of labour can be increased only in the long period. Children take time to become workers ; (b) in some industries the supply of labour may be inelastic or even negatively responsive at higher wage levels. In the short period overall supply of labour may be taken to be given.

9. Differences in efficiency. All workers are not equally efficient. Some workers have better training and higher efficiency. Their wages are accordingly higher.

10. Both a means and an end. A labourer is both a means of production as well as the end of it. He produces goods and consumes them. The demand for goods is mostly linked with the level of wages.

11. Capital can be invested in labour. In order to increase the efficiency of labour, capital can be invested on a worker's education and training. Trained workers are also called human capital. This human capital is a very important factor in the progress of a country.

12. Labour's cost of production is not measurable. Labour is a factor whose economic cost of production cannot be estimated. It has a social cost. Unlike capital, wages cannot be related to the cost of production of labour.

13. Indirect nature of demand. Labour is not directly demanded like goods and services of consumption. The demand for labour is derived demand. The services of a labourer are demanded only when there is demand for the goods he produces.

5. EFFICIENCY OF LABOUR

Definition of Efficiency

The efficiency of a worker means the power of a worker to work and produce goods and services. It is indicated by the capacity of a worker to produce per period of time. It is defined as under :

A labourer's efficiency is the quantity and quality of the goods and services he can produce over a given time period, under given conditions.

Efficiency of labour is a relative term. We can talk of a worker's efficiency only in comparison to the efficiency of a standard worker. Therefore, any measure of efficiency is based on comparison. A worker's efficiency depends as much on the quantity of production. If a worker produces the same quantity but a better quality of production, he is more efficient.

Factors Affecting Efficiency of Labour

Efficiency of labour depends on many factors. As Penson has remarked, "The efficiency of labour depends partly on the employer and partly on the employed, partly on organisation and partly on the individual effort, partly on tools and machines etc., with which the worker is supplied and partly on his own skill and industry in making use of them." We can list the following factors affecting efficiency of labour.

1. Racial qualities. A worker's efficiency depends to some extent on the racial blood to which he belongs. Workers from north Indian states of Punjab and Haryana can do physical work much better than workers from Bengal, or the southern states. However, workers from south are more educated and skilled.

2. Hereditary qualities. Some workers are specially fit for a particular type of work because that is their hereditary occupation. Ramgarhias in Punjab are good in the engineering industry. Similarly, Kashmiri workers are traditionally trained in embroidery work.

3. Climate. Climate has a decisive effect on worker's efficiency. Excessively hot climate reduces the working capacity and resistance of workers. Temperate climate as that of England and Europe increased a worker's efficiency.

4. Standard of living. The standard of living enjoyed by a worker also affects his efficiency. If workers get good food and leisure, their physical power and mental capacity increases because of they do not easily fall ill. Indian workers are less efficient mainly because to their low standard of living.

5. Common sense. Efficient workers generally have better common sense. This may be the result of basic education, traditions or a way of thinking. A more efficient worker minimises wastage of raw material.

6. Education. The level of general education and particular training of a worker determines his efficiency. A technically trained worker can handle machines much more easily. His efficiency is higher. Technical training further depends upon general education.

7. Moral qualities. A worker's efficiency depends very much upon how far he is dependable, responsible, honest or interested in his work.

8. Mobility of labour. A worker is efficient in a task in which he has long experience. If he frequently changes his occupation, he becomes a jack of all trades and master of none.

9. Level of wages. Level of wages is determined by efficiency of a worker. Level of wages also affects efficiency. A higher wage increases the worker's standard of living and hence his efficiency.

10. Hours of work. Long hours of work without lunch or tea breaks reduce a worker's efficiency.

11. Working conditions. A worker's efficiency also depends on his working conditions. If the place of work is clean and ventilated, well-lighted and the atmosphere is peaceful, worker's efficiency increases.

12. Hope for future. If a worker hopes to be promoted on the basis of hard work, he takes more interest in his work. He tries to be more efficient in order to get promotion.

13. Freedom of work. A worker having more freedom and facilities for initiative tries to be more efficient. On the other hand, if there is too much of interference from the officers, worker's efficiency declines.

14. Nature of work. If work is according to taste of a worker, he is more efficient. The employers, who put workers on the jobs they like, get greater efficiency.

15. Trade Unions. Organisation of workers has also some effect on a worker's efficiency. Good trade union leaders induce greater discipline, get higher wages and promote the welfare of workers. Unorganised labour is not much reliable.

16. Social and religious conditions. Some social factors like the caste system, the joint family system tend to reduce efficiency by keeping workers in particular profession. Greater freedom of work and scientific outlook increase efficiency.

17. Labour laws. If government enacts labour laws regulating hours of work, wages and their payment, social security etc., workers efficiency increases due to reduced strain on their mind.

18. Ability of the Organiser. A worker's efficiency also depends upon the managerial ability of the organiser. Able administrator employ workers depending on the political conditions in the country. Trade unions are affiliated with one political party or the other. If the ruling party is able to win the confidence of workers, there are less industrial disputes and higher efficiency of labour.

6. WHY IS THE EFFICIENCY OF INDIAN WORKERS LOW ?

It has been observed that the working efficiency or productivity of Indian workers is much lower than that of a Japanese, an American or a Canadian worker in the same industries. Why is this so ? The answer is that the Indian worker labours in an environment which is not helpful to efficient work. The Indian worker is poorly fed and ill-clothed. He lives in unhygienic conditions in a slum and thus falls an easy prey to ailments of different types. Since his family is also poorly housed and fed, his family members are also a constant source of worry for him. He works under considerable stress and strains and is often late, absent or tense on his job. Employers call all those labour irresponsible. Moreover, labourers are not well-organised to take care of their joint interests and to inculcate healthy behaviour in its members. Trade unions are often divided

along caste or political lines. Since a majority of the workers are illiterate, they cannot be trained for higher jobs or for increased efficiency. Moreover, a worker cannot do better than the technology with which he is working. Workers in Japan and the U.S.A. work with up-to-date technology and thus have higher productivity.

7. DIVISION OF LABOUR—DEFINITION

In modern times, the importance of specialisation has increased too much. Specialisation leading to the increased use of machines and large-scale of production. With the help of specialisation, a task is divided into a number of jobs for different workers. This is called division of labour. In the words of Taussig, "The division of labour obviously means that persons who can perform several operations of a given branch of industry combined for bringing about final results. The final results are the finished product and the different processes through which it passes before being finalised are called operations. Thus, Waston says, "production by division of labour consists in splitting up the productive process into its component parts."

There are many examples of division of labour around us. Even the manufacture of shoes has been split up into different processes ; such as treating the leather, preparing the upper part, the heel and the sole and then combining all these and finishing. Different workers do the different jobs. Thus, division of labour is specialisation from the individual view point and co-operation from the community view point.

Forms of Division of Labour

Division of labour may take different forms :

1. Simple division of labour. Simple division of labour is that in which one task is done by two or more persons which one person cannot do easily. For example, pushing a bus to start it, lifting logs of wood, cutting crops etc.

2. Occupational division of labour. Occupational division of labour is that in which only one person performs the task of a particular occupation. It is the extreme type of simple division of labour. This is seen in the Indian villages where carpenters and blacksmiths attend to complete jobs.

3. Complex division of labour. Prof. S.E. Thomas writes : "The division of labour is described as complex when each man or group of men undertakes a specialised function which is contributory only to final results. Complex division of labour is seen in all big industries such as car manufacturing.

4. Territorial or geographical division of labour. The localisation of particular productive activities in particular areas is called geographical division of labour. For example, the localisation of textiles in Bombay, jute industry in Bengal and sugar industry in U.P. are the result of territorial division of labour.

8. ADVANTAGES OF DIVISION OF LABOUR

Division of labour has been considered to be the key to industrialisation and economic development. Adam Smith found it to be the basic reason for the prosperity of some countries. Division of labour has the following advantages which lead to increased efficiency of labour and general economic development:

1. Right man for the right job. The correct job can be assigned to the worker with the right physical handling and specially trained workers.

2. Increased efficiency. Increasing the use of machines. A tailor may stitch only one shirt but a specially trained worker can be stitched.

3. Invention of new machines. The same operation day after day. Many of the inventions are made by specially trained workers.

4. Superiority of their tasks and the results.

5. Reduced cost. A firm. There are many advantages.

6. Time saving. The task of finishing a product because they remain in the same place.

7. Saving of operations. Every worker has his own labour to do.

8. Saving of expenditure. Less than in the case of individual expenditure.

9. Increased availability to workers. A set of jobs they can do.

10. Increased coordination of different tasks. A sense of discipline.

11. Growth of industry. In which a large number of workers are engaged.

12. Greater efficiency of the factory system. Each worker works with each other, as a whole.

13. Training of workers. Under division of labour, professional managers are trained.

14. Advantages of division of labour. Requires proper management and advantages. This is the basic reason for the prosperity of some countries.

1. Right man at the right job. Since work is divided into a number of operations, the correct job can be given to a man according to his capacity. Operations requiring good physical handling are given to physically strong workers, while those requiring skill are given to specially trained workers.

2. Increase in productivity per period of time. Division of labour also helps in increasing the use of machines, thereby stepping up production within the same time period. One tailor may stitch only 3 shirts a day while with the use of machines as many as 300 shirts may be stitched.

3. Inventions. Inventions are encouraged. Under division of labour a man attends to the same operation day after day. He tries to simplify his process. Thereby making inventions possible. Many of the inventions in the Industrial Revolution were made by practical workers.

4. Superior Production. As a result of division of labour workers become experts in their tasks and the quality of production improves.

5. Reduced Cost of Production. Division of labour tends to increase the size of the firm. There are many economies of size which reduce the cost of production.

6. Time Saving. Division of labour also reduces the time period required for completion of the task of finishing the product. There is no wastage of time in the movement of workers because they remain at their places. Similarly, there is better use of implements under specialisation.

7. Saving in manual labour. Under division of labour a work is divided into small operations. Every worker is given a part of the job. Therefore, a worker has lesser manual labour to do.

8. Saving in learning time. The time needed for training in part of a job is much less than in the whole job. Therefore, workers are more easily trained with lesser time and expenditure.

9. Increased choice of jobs. Under division of labour there is a variety of jobs available to workers. They can choose the one in which they are interested rather than the whole set of jobs they are required to do in the absence of division of labour.

10. Increased co-operation and discipline. Division of labour requires co-ordination of different operations so as to keep the assembly line moving. It induces in workers a sense of discipline.

11. Growth of trade unions. Division of labour has given rise to the factory system in which a large number of workers work at the same place. They can join to form trade unions.

12. Greater mobility and exchange of ideas. Under the influence of the factory system a large number of workers from different areas work together. As they mix with each other, different cultures interact and the result is greater mobility in the working class as a whole.

13. Training for good organisation. Only able organisers can supervise the jobs under division of labour. Thus, there has been the growth of organisational ability. There is a professional managerial class to get the work done scientifically.

14. Advantages of geographical division of labour. Since division of labour requires proper location, different industries get localised in particular areas with special comparative advantages. Thus, products are produced at the lowest possible cost.

9. DISADVANTAGES OF DIVISION OF LABOUR

Division of labour is not an unmixed blessing. It has disadvantages of its own. According to Chapman, division of labour has an adverse effect on workers and society as a whole. We may list the following disadvantages as the main :

1. **Monotony of work.** Due to division of labour, work has been reduced to a monotonous routine. A worker feels bored. The variety of life under simpler production is more there.

2. **One-sided development of the workers's personality.** Under division of labour a worker is trained and experienced in only one operation in the manufacture of a product. As a result he becomes just a minor part of the whole job. The worker is unable to obtain the overall knowledge of his production. It has its own adverse consequences.

3. **Lack of responsibility.** Division of labour means division of responsibility. There is no single person to own the responsibility for overall manufacturing defects.

4. **Loss of joy.** If a person does the whole job from the start to the finish, he can feel proud of his creation, art or originality. When work is divided among a number of people, this satisfaction is no more there.

5. **Lesser mobility of labour.** Under specialisation, a worker is trained in a particular operation. As a result he cannot easily shift to other jobs and occupations. Worker's mobility is reduced.

6. **Increased risk of unemployment.** Due to specialisation under division of labour, a worker finds difficulty in finding the same job in another factory when he is unemployed.

7. **Exploitation of women and children.** Under division of labour a work is divided into small simple operations. Some of these operations are given to women and children at lower wages. This spreads unemployment among men on the one hand and leads to the exploitation of women and children under the factory system on the other.

8. **Evils of factory system.** Division of labour gives rise to the factory system and all the evils accompanying them. The evils are dirty atmosphere, growth of slums, congestion and increased accidents.

9. **Conflict between workers and employers.** Due to division of labour the number of workers become so large that there is no direct contact between workers and the employers. Both of them fight for their interest. Workers join to form trade unions and employers have their own associations. The direct conflict between the union and the association leads to strike, lock-out and other disputes.

10. **Harmful dependence.** Due to division of labour no worker is independently employed. One workers becomes a link in a chain of operations. If the chain is broken at one place, the whole work comes to stand-still leading to unemployment.

11. **Fear of over production.** Under complex division of labour production is undertaken in anticipation of demand. Sometimes overall production is much more than the consumers are prepared to purchase. This leads to a glut in the market resulting losses to the producers.

12. **Loss of artistic skill.** Under division of labour production is done through the machines. Artistic goods are not produced. Machine-made goods being cheaper, artistic goods do

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not sell in competition. Many of the artistic handicrafts in India have decayed due to arrival of machine made goods in the market.

13. Disadvantages of geographical division of labour. The geographical division of labour which accompanies the rise of the factory system has its own disadvantages like unemployment, dependence and overcrowding.

14. Difficulties in distribution of factor-rewards. Under division of labour the production system is so complex that it is difficult to estimate the contribution made by particular worker. There is difficulty in fixation of wages for different workers.

15. Social costs. Division of labour brings about the break up of the old simple system of production and makes workers mere wage earners. This gives rise to inequalities of income distribution. Workers find themselves in unhealthy atmosphere because factory owners seldom take care of labour enemies.

Conclusion

Even when there are evils of division of labour, we find that the production system is getting more and more complex. This is because division of labour is unavoidable in a programme of industrialisation. We can control the evil effects of division of labour by proper labour and factory legislation.

10. FACTORS AFFECTING DIVISION OF LABOUR

There are quite a few factors affecting the division of labour in an industry. These may be taken to be limitations of the division of labour.

1. Extent of the market. Adam Smith had correctly observed that "Division of labour is limited by the extent of the market." This means that the size of market for the products of an industry is the guiding factor in division of labour. Where the size of the market is small, the demand will be less and the volume and production also small. As a result there will be lesser use of machines and hence lesser opportunity for division of labour.

As the extent of the market for the products of an industry widens under the opening of new areas to the exchange economy, the volume of demand expands. This is the case with such consumer goods industries as cycles, shoes and clothing. As a result division of labour is encouraged. On the other hand greater division of labour reduces costs and prices thereby increasing the demand or the extent of the market.

In short we can say that division of labour is limited by the extent of the market and vice-versa.

2. Nature of Demand. The extent of division of labour also depends upon the nature of demand facing an industry. If the demand is permanent, production will be at a high scale. On the opposite, temporary demand does not encourage investment machines.

3. Nature of the industry. Some industries are more open to division of labour than others. For example, the manufacturing of cards can be split up into as many as 3200 operations. On the other hand, there is hardly any division of labour possible in artistic and skill-involving industries like printing, painting and embroidery.

4. Facilities of trade and communication. The availability of trade and communication facilities ; such as banking, insurance and transport widens the extent of the market thereby increasing the scope for division of labour.

5. Availability of industry required resources. An industry's division of labour is also limited by the possibility of expansion of resource supplies required by the industry.

6. Extent of co-operation and discipline among workers. Under division of labour worker's dependence on each other increases. In fact the success of division of labour depends upon the co-operation and discipline among workers.

7. Operation of the Laws of Returns. Division of labour also depends upon whether the law of diminishing returns sets in at a small or large-scale of production. If there are increasing returns with a large-scale also, division of labour can be carried on much farther.

8. Efficiency of the Organiser. Division of labour requires efficient organisation of production. There is a good deal of strain involved in complex division of labour. If the organiser is not efficient, division of labour will be limited.

9. Technical progress. The division of labour in an industry also depends upon the level of technology available in the industry. This in turn depends upon the extent to which applied research is making the results available for adoption in the particular industry.

In short, division of labour is governed by a number of factors on the demand side as well as the supply side of an industry. The first necessary condition for division of labour is the wide extent of the market. Therefore, Adam Smith considered it to be the key factor in the economic progress of a country.

11. DEFINITION AND CHARACTERISTICS OF CAPITAL

According to Marshall, "Capital consists of those kinds of wealth, other than the free gifts of nature, which yields income," Capital is any thing produced by man which can be used for further productions. Thus, Chapman has remarked, "Capital is wealth which yields an income or aids the production of an income or it intends to do so".

Capital is a factor of production different from other factors. The chief distinguishing feature is that it is man-made. This fact leads to the other characteristics of capital.

Characteristics of Capital

Capital has peculiarities of its own. These are as follows :

- 1. A man-made factor.** Capital formation takes place through the savings done by man. Therefore, capital is also called stored up labour. Since it takes lot of labour to create a capital asset, it is also called crystallized labour. It has a cost of production.
- 2. A secondary factor of production.** Capital is a man-made factor whose supply is increased or diminished by the efforts of man. Thus, it is a secondary factor. Some people say that capital is nothing but transformed land and labour.
- 3. Depreciation.** When capital is used for production it depreciates depending on the durability of the capital asset. Therefore, provision must be made for replacing it.
- 4. A mobile factor.** Capital is the most mobile factor of production. It is easily transferable from one place to another.

5. A passive factor. It is a passive factor.

6. Elasticity. On the other hand...

7. Formation of capital assets. All saving is in favour of the formation of capital assets.

8. Capital characteristics of production. The most important characteristic of production is capital assets.

12. TYPES OF CAPITAL

Capital is divided into two lines of production.

1. Fixed Capital. The two types are Fixed Capital and Circulating Capital.

2. Free Capital. Several purposes are served by capital that which can be used for other uses than the production of goods.

3. Man-made Capital. The two types are Man-made Capital and Natural Capital, book etc. People's habits and customs are also capital.

4. Real Capital. Their contribution to production is machines and tools.

13. PRODUCTION OF CAPITAL

Capital is produced through the required building and transportation. The consumption of capital is for the purpose of production.

5. A passive factor. Capital is unable to produce without land and labour. Therefore, it is a passive factor.

6. Elastic supply. The supply of capital assets can be increased through higher saving. On the other hand capital supply is diminished when there is no provision for depreciation.

7. Formation of capital involves a cost. Capital is not a free gift of nature. The formation of capital starts with savings. Savings must be invested to produce the required capital assets. All saving is the result of non-consumption of income. Savers sacrifice their present consumption in favour of the future. Thus, capital becomes a link between present and the future.

8. Capital depends upon technology of production. The most important characteristics of capital is that its nature depends upon the level of technology employed by a nation. The more progressive is a country's technology, the more capital-intensive is the method of production. Developed nations use huge machines while poor countries mostly use traditional capital assets.

12. TYPES OF CAPITAL

Capital is classified from the point of view of the production processes employed in different lines of production. The main classifications are as follows :

1. Fixed and circulating capital. A.H. Smith has nicely distinguished between the two. He writes, "Fixed capital is capital which can be used many times in producing goods. Circulating capital is that capital which is used up after one application."

2. Free and sunk capital. Free or floating capital is that which can be used for several purposes as by several industries. Examples are iron, cement, leather etc. Sunk capital is that which can be put only to one use. For example, a printing machine cannot be put to any other use than for printing.

3. Material and personal capital. Prof. Thomas has nicely distinguished between the two types of capital. Material capital consists of those capital assets which are in tangible form and which can be transferred from one person to another. Examples are pen, pencils, copy book etc. Personal capital is of the non-material type. It comprises of all those energies, faculties and habits which contribute to make people efficient in their jobs.

4. Remunerative and auxiliary capital. The payment made to workers for their contribution to production is called remunerative capital. But payments made for the use of machines and other man-made equipment is called auxiliary capital.

13. PROCESS OF CAPITAL FORMATION

Capital formation is a process through which savings are transformed into usable assets of the required type. Capital formation is also called capital accumulation because it leads directly to the building up of new capital assets like machines, roads, railways, means of communication and transport. The process of capital formation is partly institutional and partly technical in nature. The first step is saving. Individuals as well as governments can save by keeping their consumption below their income. The second step is mobilisation of these savings for investment purpose. This requires incentives or inducements to invest. This is because investment involves

waiting for the future as well as income from the capital assets created through investment. The third step in capital formation is the technical transformation of the mobilised saving into required capital assets. This third step is the most important because without it saving will not be turned into investment.

Some writers like Simon Kuznets are of the view that a broader definition of capital formation must include the information of skills and imparting of training to workers. They call it human capital-formation. However, for all practical purposes, capital formation is taken to be tangible capital formation. Human capital is not so easily measurable.

Factors affecting Capital-formation

There are three types of factors affecting the level of capital formation in a country. These are : (1) level of savings, (2) capacity to mobilise this saving, (3) factors affecting investment of the available savings. We take these factors one by one.

A. Factors affecting Level of Saving

The main factors affecting the level of savings may be classified as : (1) power to save, (2) willingness to save, and (3) facilities to save. We deal with each one of these factors below.

1. Power to save. The power to save depends mainly upon the level of income enjoyed by a people. Ultimately the level of income obtained by the people of a country depends upon its national income. The level of saving out of a given level of income shall depend upon the expenditure which in turn is determined by the standard of living to which the people are habituated. National income of a country is determined by its natural resources and the degree to which these have been developed for use. Secondly, the level of saving also depends upon the way income is distributed. If a major part of the income goes to a few people, they can save easily. If the level of income is low and is equitably distributed the common masses do not have the power to save. Thirdly, the power to save depends upon the development of commercial organisation like the joint stock companies. Better the organisation, greater the power to save on the part of business concerns.

Fourthly, the power to save in a country very much depends upon government policy. If the government gives incentives for savings and keep the level of taxation low, the power to save is higher. Government may itself run public enterprises on commercial lines to mop up the maximum resources possible.

Fifthly, the expenditure out of a given level of income is determined by the standard of living enjoyed by the people in the recent past. If the present level of income is lower than that in the past, saving may become negative because people cannot suffer in their standard of living. If current income is much higher than past income, then the saving capacity may also be high.

2. Willingness to save. The level of saving depends also on the desire in the inhabitants of a country to save. Generally, people are motivated to save by a number of economic, institutional, social and psychological considerations. We may list the important factors affecting the willingness to save. Firstly, the desire to save arises out of the need to save for a rainy day. Future is uncertain and something must be provided for ailment, accident, unforeseen losses and unemployment periods. Secondly, family affection also induces people to take to saving having habits for their children. Thirdly, the desire for power and prestige which a wealthy man may enjoy also encourages the habit of saving.

Factors of Production

Fourthly, the... while others incur... saving habit.

Fifthly, the d... under control. If th...

Sixthly, the... Higher rates of in... great extent the w... discourages saving... willingness to sav... Others are liberal

B. Facilities

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1. Peace... not secure, nobo...

2. Taxat... tax induces the c... habits adversely.

3. Fear... traders, they wil...

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C. Factors

The third... available savin... producers of c... their investme... factors affecti... capital assets.

Fourthly, the power of habit is also strong. Some individuals are by nature thrifty while others incur too much expenditure. There is a national character connected with the saving habit.

Fifthly, the desire for expansion of business also induces people to keep their consumption under control. If there is a boom in business, people have more intense desire to save.

Sixthly, the rate of interest is the chief incentive for promoting the willingness to save. Higher rates of interest bring forth higher savings. Seventhly, social customs also decide to a great extent the willingness to accumulate saving and spend them. Wasteful social expenditure discourages savings. Lastly, the religious activities and the religious atmosphere also influence the willingness to save. Some religions condemn the saving habit and charging the rate of interest. Others are liberal about it.

B. Facilities to Save and Mobilisation Mechanism

The second step in the process of capital formation is to mobilise the available savings. People may be having the power and the desire to save but the actual savings available depend upon the facilities available to them for accumulating their savings. The main factors affecting mobilisation of saving in a country are as follows :

1. Peace and Security. This is basic condition for saving. When life and property is not secure, nobody wants to save.

2. Taxation Policy. The nature of taxation determines the facility to save. An expenditure tax induces the desire to save. Heavy income tax, wealth tax or property tax affect the saving habits adversely.

3. Fear of Nationalisation. If the traders or industrialists fear nationalisation of their traders, they will try to save less. A free enterprise economy tends to encourage savings.

4. Purchasing power of money. For maximisation of savings, there must be stability in the purchasing power of money. A falling purchasing power is a great disincentive for saving.

5. Development of the money market. Saving also depends upon the extent to which the money market is developed. If the money market is developed people can invest in saving certificates, bonds, shares, insurance etc. A backward money market does not offer such channels for saving.

6. Development of banking. Developing of banks in an area help in the mobilisation of saving by keeping it secure and giving people an assured rate of interest.

7. Capable entrepreneurs. When a country has able entrepreneurs who organise trade and production efficiently, conduct business honestly, the shareholders get reasonable profits. People are encouraged to save and invest in the stocks and shares of nicely managed companies.

C. Factors affecting Investment

The third step which gives productive capacity to the mobilised saving is investment of the available savings. For being transformed into investment, saving must go into the hands of producers of capital assets. Producers of capital assets must be expecting enough reward from their investments to pay back the rate of interest and yet obtain reasonable profit. Thus, there are factors affecting investment both on the supply side of saving as well as on the demand side of capital assets.

In discussing the factors for investment, it is useful to distinguish between public investment and private investment. Public investment depends upon a number of considerations with the government; it is not guided by profit motive. Therefore, neither the rate of interest on public funds nor the expectation of a rate of return on investment affect the level of public investment.

Private investment is determined by the rate of interest payable on investible funds on the one hand, and the expected rate of return from investment on the other. Commonly, the following factors are important influences on the level of investment or capital formation.

1. Technological Progress. Investment leads to the building of capital assets. If there is a greater demand for capital due to technical progress, saving can be easily absorbed. If the technology is the same, there is no incentive to save more and invest more.

2. Maintenance and operating costs. While investing, business men look to the expected profit which depends among other things on the maintenance and operating costs of different type of machines.

3. Government policies. Private investors also consider the taxation policy of the government. Taxes are the part of cost of production. Higher the taxes, lower the incentive to invest.

4. The present stock of capital goods. The inducement to invest is also determined by the available stock of capital goods. If the available stock is much below the normal level, the inducement to invest is higher. If the available stock is high, the businessmen will be reluctant to invest.

5. Expectations. Investment depends upon expected profits. Capital goods are durable in nature. Therefore, the expected rate of profit from the use of the created capital assets is the main factor influencing investment. If the present atmosphere is one of boom and businessmen are optimistic, their expectations regarding the future will induce higher investment. But if the businessmen are pessimistic, investment is low.

6. Long-term changes in population and territorial expansion. If population is expanding in a resource-rich area and new territory is being developed, the inducement to invest will be high due to expansion of public services, construction of houses and other amenities for new settlements.

In short, the rate of capital formation in a country depends upon a variety of factors, some economic, some social and other political in nature. Three steps must be completed in the process if real capital formation is to take place. People in most of the countries have the desire and willingness to save. For example, in India there is a good deal of saving in the form of gold and silver. But the second step is not taken due to the lack of a developed money market; savings are not sent into channels where they can become investible funds. The second step is the development of financial institutions like banks, investment trusts and insurance companies. Even when the two steps are complete the third part of the process of capital formation may be missing. This third step is to transform available savings into capital assets. It requires business organisation, technical skill and engineering ability. There must be the decision-making power with the investors to turn savings into capital assets. In most of the less developed countries, the third step is not easy to take. As a result saving remains ineffective. The rate of capital formation is low even with a high rate of saving.

14. FUNCTION

Capital is a very important factor in the production of goods. The lack of capital is a basic factor in economic development.

1. Increasing productivity. Capital push up the productivity of labour. It increases productivity by providing efficient machines, tools and equipment. Types: (1) capital deepening, which involves training to use them. (2) capital widening, which involves training more workers. As a result national income increases.

The function of capital is to provide the supply while land provides the demand.

2. Increasing employment. Capital provides opportunities. In the long run, capital is a good. But to employ capital, more labour is necessary. The creation of capital which in turn needs more labour.

3. Raising productivity. Capital is used by building machines and tools, although he can do without it. Capital is a soil out of the city. Capital is a labour also as it is a factor of production.

4. Helping workers to handle capital. Capital implements is used by workers. It is an important force in the character and quality of workers. Workers are helped by capital.

5. A means of production. Capital is the very important factor in the production of goods. Poor countries have a technological revolution due to lack of capital. As a result, capital is a more capital. As a result, capital is a more capital. As a result, capital is a more capital.

(1) Capital

(2) Technological

problem of economic development

15. WHY

The rate of capital formation is low even with our efforts at

14. FUNCTIONS OF CAPITAL

Capital is a very important factor of production in modernised production. It is because of the lack of capital that most of the countries are unable to get rid of their poverty. Capital is a basic factor in economic development. We may list the following functions of capital :

1. Increasing the productivity of land and labour. Capital is supposed to push up the productivity of land as well as labour. This leads to increased production. Capital increases productivity by increasing the scale of production. With the use of more and more efficient machines, costs of production are brought down. The use of capital may be of two types: (1) capital deepening in which every worker is given improved implements as well as training to use them. This is also called more capital intensive production. (2) Capital widening in which more workers get employment through the supply of machines and implements for them. As a result national income increases and the standard of living rises.

The function of capital is to relieve the shortage of land and other resources. Capital is elastic in supply while land is not. Capital formation allows a nation to progress with limited land resources.

2. Increased Employment. Another function of capital is to increase employment opportunities. In those countries where labour supply is plentiful, labour intensive methods are good. But to employ workers economically and gainfully increased capital supply is absolutely necessary. The creation of employment opportunities requires development of natural resources which in turn necessitates the use of capital.

3. Raising the dignity of labour. Capital also helps in raising the dignity of labour by building machines to take up arduous work. A farmer feels much more dignified with a tractor although he can do the same job with a plough. Similarly, trucks are used to carry dirt and night-soil out of the city; in this way capital replaces labour to some extent. But it raises the productivity of labour also as well as its dignity.

4. Helpful in human capital formation. Capital of tangible type requires skilled workers to handle it. There must be some learning on the part of workers before a new set of implements is used. The importance of learning while doing skilled work has been recognized as an important force in economic development. Prof. Kuznets has written, "The major capital stock is the character and efficiency of masses. Education and health investment increase the productivity of workers." Workers must be trained on machines before they are able to handle them.

5. A means of adapting technical progress. Technological progress is one of the very important forces in economic development of a country. Due to the shortage of capital poor countries find it difficult to adopt the latest techniques in production. There has been a technological revolution from which the less developed countries have not been able to benefit due to lack of capital. Even the most elementary type of technical change requires the use of more capital. According to Prof. Cairncross capital formation is related to economic development in the following ways :

- (1) Capital formation makes it possible to use more roundabout methods of production.
- (2) Technical progress requires more capital. Thus, from whichever angle we look at the problem of economic development it proves to be a problem of capital formation. The key to economic development of less developed countries is capital formation.

15. WHY IS THE RATE OF CAPITAL FORMATION LOW IN INDIA ?

The rate of capital formation in India has been rising although at a rather slow rate. With all our efforts at saving and investing a higher percentage of our national income in India, we are

still far way behind countries like Japan. What are the reasons for this? (1) The levels of income of a majority of the Indians are so low that they cannot save anything. (2) Others who could save have been hit by the continuously rising prices which have reduced their purchasing power. (3) The middle class which saves and gives its savings for investment has been caught in the compulsive habit of imitating the rich class in the use of household gadgets like refrigerators, colour TV sets, desert coolers and, above all, spacious, costly housing. This has reduced their capacity to save under rising incomes. (4) As far as the rich class is concerned, it could save more and invest more only if it were taxed heavily or given free, unrestrained opportunity to build up assets of its choice. But this has not been made possible because there is large-scale tax evasion and expansion of the 'black money' market. (5) The system of licensing and control has discouraged many a potential entrepreneur from changing over to manufacturing from trading. And also, because of the shortage of foreign exchange resources, imports of capital goods have not been possible on the desired scale to induce much capital formation in India. Recently the financial institutions in India have given liberal credit for consumption on purposes. So the rate of saving and capital formation have not caught up with the rising levels of national income.

16. ENTREPRENEUR

Economists do not agree on the definition of an entrepreneur. Perhaps this is because of the multifarious activities he has to his credit. Three main definitions are popular.

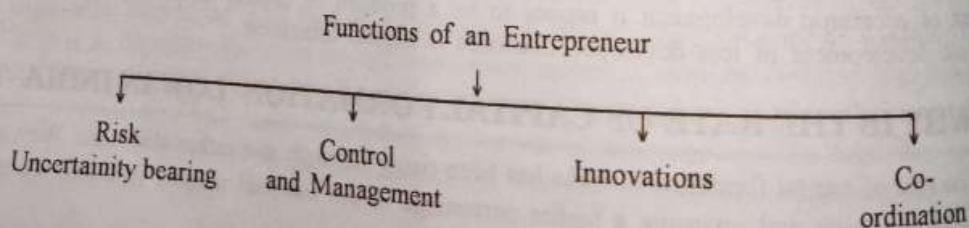
According to F. H. Knight, "An entrepreneur is a person who performs dual function of risk taking and control." Knight considered risk taking to be the major function of the entrepreneur. This distinguishes him from other factors who take no risk by working on contract.

Professor Schumpeter is another writer who discussed the role of an entrepreneur in detail. In his view, "Entrepreneur is associated with innovations." Innovations mean the practical application of new ideas to reduce the cost of production or to improve the quality of product.

According to Whitehead, "The entrepreneurs are the owners of the business who contribute the capital and bear the risk of uncertainties in business life. They may be sole traders, limited partners and shareholders." Thus, Whitehead did not associate entrepreneurship with a single person. In his view entrepreneurship is a function which may be performed by one or more persons.

17. FUNCTIONS OF AN ENTREPRENEUR

An entrepreneur performs three main types of functions. These functions involve decision-making. Therefore, sometimes an entrepreneur is identified by his capacity for decision-making. It is also said that the real entrepreneur is the ultimate decision-maker. It is the power to make basic decision which distinguishes an entrepreneur from a manager. We sum up the main functions of the entrepreneur as next:



Factors of Production

A. Bearing of Risks

The entrepreneur bears the risk. Knight distinguished between theft and fire or accident risk. There are other risks which are not in the pattern. Knight called these uncertainties a fact in connection with entrepreneurship. Profit due to this specific function.

B. Control and Management

An entrepreneur exercises control over the companies the entrepreneur manages. An individual enterprise may be a business. However, an entrepreneur is not a business.

1. Choice of the product
He conceives the idea of the product.

2. Selection of the design
design for the product or the process in the market.

3. Size of the business
be made.

4. Scale of production
decide about the nature and extent of production.

5. Place of production
has to consider the availability of facilities and nearness to the market.

6. Organization of production
selling the product. The entrepreneur decides the price at which it is sold.

7. Application of technology
and from the engineering department.

C. Co-ordination

Production is co-ordinated by the entrepreneur not only by supervising their production but also by maintaining connection keeping track of the production.

1. Obtaining of raw material
material at a reasonable price.

2. Selection of machines
machines continue to be used.

3. Assignment of jobs
in different jobs, such as the assignment of jobs to different workers.

A. Bearing of Risks

The entrepreneur bears a variety of risks which nobody else is prepared to undertake. Prof. Knight distinguished between insurable risks and non-insurable risks. Insurable risks are those of theft and fire or accident which can be ensured against. The entrepreneur need not bear them. There are other risks which are not insurable because they are unforeseen risks not following any pattern. Knight called these uninsurable risks as uncertainties. He observed, "The most fundamental fact in connection with entrepreneurship is the meeting of uncertainty." The entrepreneur claims profit due to this specific function of uncertainty bearing.

B. Control and Management

An entrepreneur exercises the top control on management of a firm. In big joint stock companies the entrepreneur may be a team of directors with a chairman director at the top. An individual enterprise may just be a one-man show. The degree of control depends on the nature of business. However, an entrepreneur has to make the following decisions in every enterprise.

1. Choice of the line of production. Entrepreneur is the founder of an enterprise. He conceives the idea of the product or products to be produced and line of specialization.

2. Selection of design and quality. The second decision is to choose a design for the product or to decide the quality. This shall be based on the nature of competition in the market.

3. Size of the plant. The next decision is about the amount of fixed investment to be made.

4. Scale of production. The entrepreneur has to choose a scale of production and decide about the nature of machines to be used.

5. Place of production. Location of an enterprise is also a vital decision. For this he has to consider the availability of raw material, labour and capital as well as the production facilities and nearness of the market.

6. Organization of Scales. The ultimate aim of all production is to obtain income by selling the product. The entrepreneur decides the mode of transport of the product of the market, the price at which it is to sell and the advertisement methods to followed.

7. Application of innovations. Now ideas continue to flow from the workers side and from the engineers. The entrepreneur has to choose profitable innovations and apply them.

C. Co-ordination and Supervision

Production is co-ordinated work of the factors of production : land, labour and capital. The entrepreneur not only brings them together, decides on the way they are to be organized but also supervises their production to introduce the necessary changes wherever required. In this connection keeping the production process on required day-to-day decisions as follows :

1. Obtaining raw materials. The entrepreneur has to arrange for proper raw material at a reasonable price. In this he may be helped by the purchase officers.

2. Selection of proper tools and machinery. The entrepreneur has to see that machines continue to work properly and their maintenance requirements are met properly.

3. Assignment of jobs to workers. The entrepreneur has to place workers properly in different jobs, supervise their work and induce them to work harder.

4. Relation with competitors. The entrepreneur also decides on the nature of competition he has to carry in the market. For this he has to watch the behaviour of competitors and decide the policy.

5. Distribution of rewards. The entrepreneur decides on the rewards to be given to different factors. In deciding this he has to bear in mind their relative contributions to production.

6. Relation with government. In the present times, government has come to help, regulate and even direct business. An entrepreneur has to establish contact with the government. Obtaining licence, paying taxes, selling to government departments, contacting the labour department etc. are all functions performed by the entrepreneur.

D. Innovations

In Professor Schumpeter's view, the distinctive feature of an entrepreneur is to search for innovations which either reduce costs or enhance the product quality. Introduction of successful innovation given an entrepreneur the opportunity to earn supernormal profits. If an entrepreneur fails to introduce innovations, he becomes a manager only.

18. QUALITIES OF AN ENTREPRENEUR

An entrepreneur must possess a number of qualities of head and heart. Only then he can be efficient and earn high profit. Some of the well-known qualities of an entrepreneur are as under.

1. Courage. An entrepreneur has to face many difficulties in running his business. Therefore, he must have courage to take up risky business. There are booms and depression in business. An efficient entrepreneur should not lose heart in the face of such rise and fall in his business.

2. Foresightedness. An able entrepreneur must be able to estimate the future change likely to take place in the market. For this he must be able to know the trends in fashion and people's tastes and adjust his business to the changing market.

3. Leadership qualities. An entrepreneur is like the captain of the ship if industry is taken to be like a ship in the seas of market. A successful entrepreneur must have the qualities of leadership. He must be able to influence people and win their confidence. He should be thoughtful, skilled in his business and courageous in difficulty.

4. A good organizer of labour. An entrepreneur should be a good organizer in the sense that he should be able to lead men. He should neither be very strict nor very lenient. He should be sympathetic to his labour and must try to remove genuine difficulties.

5. Knowledge of Business. The entrepreneur must know his business well otherwise he will not be able to make good decisions as market conditions change. His managers will respect him only when he knows his trade well.

6. Experience. Greater the experience of an entrepreneur, higher is his efficiency. It is agreed that knowledge of business is inborn. But with experience even a normally intelligent man can become an entrepreneur.

7. Education of business administration. An entrepreneur has to deal with many agencies at a time. He should, therefore, know all the aspects of his business - economics, commercial, banking etc.

8. Moral qualities. In the area of trade a moral quality like trust and confidence is very important. Modern business depends on high level of credit. If an entrepreneur is not honest

Factors of Production

and does not keep his capital to him.

In short, an entrepreneur should be sympathetic for the workers in schools. These qualities

19. WHY IS THERE A SHORTAGE OF TALENT IN INDIA

There has been often a shortage of talent in the case of many other countries in the industrial economy. This is also the case in India. *Firstly*, the effort to accumulate wealth since independence, by moneyed people in the cities, has been hampered by their incapacity and indifference. *Thirdly*, the lack of small savings of the masses, mobilised by the development of expanding cities, for the use of a few powerful industrialists, using their influence to the nature of modern business, connected and well managed, can, however hope to be in India.

20. MODERNIZATION

Under the modern system of production as labour is now difficult to get, skilled and thus no longer the virgin of the soil. Lack of application of modern technology efficiently. This is one of the other factors.

Thirdly, the entrepreneur's consultancy is limited compared to the entrepreneur.

and does not keep his promise, people will lose confidence in him and hesitate in giving their capital to him.

In short, an entrepreneur should be a man of integrity, sincerity, business knowledge and sympathetic for the working class. These qualities cannot be imported through instruction in a schools. These qualities are built up over a period of time of social development.

19. WHY IS THERE A DEARTH OF ENTREPRENEURIAL TALENT IN INDIA ?

It has been often observed that there is dearth of entrepreneurial talent in India as is also the case of many other countries. This is one powerful reason for keeping India a backward industrial economy. There are many reasons for the general lack of entrepreneurial capacity in India. *Firstly*, the effect of religion on the common masses has been to discourage the tendency to accumulate wealth through bold, new ventures. Although this effect has been on the decline since independence, yet the inertia and the conservatism have not been overcome. *Secondly*, the moneyed people in India prefer trading, wholesaling and retailing to manufacturing because of their incapacity and unwillingness to take risk of competition in a narrow, controlled market. *Thirdly*, the lack of a well-developed and competitive money and capital markets has kept the small savings of the common people under the carpet. *Fourthly*, the savings which could be mobilised by the dynamic entrepreneur have gone into the purchase of real estate in the ever-expanding cities, for money could be made there handsomely without any risk. *Firstly*, the growth of a few powerful industrial houses which preempted the licenses for profitable ventures by using their influence has also denied many rich families entry into industry. And, finally, the nature of modern industry is production on a large scale right from the start. Only a few, well connected and wealthy, industrially-trained men can cope with the needs of modern industry. We can, however hope that the newly-developed electronics industry will encourage entrepreneurship in India.

20. MODERN FACTORS OF PRODUCTION- THE FOUR M'S

Under the influence of new technology, the traditional classification of the factors of production as land, labour, capital and organisation (entrepreneurship) is no longer relevant. It is now difficult to distinguish between labour and capital in practice because labour is no highly-skilled and thus has the characteristics of what is now called human capital. Secondly, land is no longer the virgin soil of nature. Lot of capital is being invested in the fertilisation and conservation of the soil. Land is being reshaped and its soil is being treated of major deficiencies by the application of soil nutrients like sulphur, nickel and cobalt. All these require a good deal of capital. Modern technology has evolved robots which can do the jobs of skilled workers even more efficiently. Thus, the distinction between labour and capital on the one hand and land and capital on the other has been blurred.

Thirdly, the role of the organiser and the entrepreneur has become more diffused. The entrepreneurial functions have now been taken over by special agencies, professional and consultancy services. It is not possible to identify an entrepreneur in a modern corporation (the limited company in India). It is difficult to answer the question whether the share-holders are the entrepreneurs or not simply because the equity-holders bear the risk of business and because

they are not the organisers of the firm. Similarly, the salaried managers who run the firm from day to day are more of skilled labour than entrepreneurs or organisers. The financiers of the firm also bear a part of the risk involved in the business but they cannot be called either organisers or entrepreneurs. According to Schumpeter, the entrepreneur is one who introduces innovations in the business and gets rewarded in the form of profits. In his view, the financiers are always ready to finance prospectively successful innovations.

In short, the traditional four-fold classification of the factors of production is not useful in the modern modes of business operations and organisations. Therefore, the modern factors of production are popularly called the four M's—Manpower (human resource), Machines (manufactured, power-driven instruments of production), Materials (raw or semi-manufactured items purchased from other firms) and Management who take decision-making as their main job. Management is a team of specialists who know the nature of the business and are answerable to the shareholders, the financiers, the consumers and the government. They are the captains of the firm and are interested not only in its survival but also in its growth. They are well-informed about the financial health of the firm and make adjustments in output, price and quality of the product from time to time. They plan for the changing market share of the firm in the industry, for diversification of production, for promotion of the products and for expansion of the capacity of the productive unit if needed. They decide to hire or fire workers, to purchase new machines or repair old ones and also to buy or sell land or lease it as the circumstances warrant. They decide about the mechanisation of operations and also decide to use the quantity or quality of materials in the production process—for example whether a textile unit is to use cotton or rayon yarn and in which proportion. In short, management is the life blood of the modern business enterprises. The other factors of production—manpower, materials and machinery—are just helping factors of production who work in the firm on contracts.

QUESTIONS

1. Define land. What are its chief characteristics? What determines its productivity? (Section 2, 3)
2. What is labour? What are its main peculiarities? (Sec. 4)
3. What is efficiency of labour? What are the factors affecting it? (Sec. 5)
4. Define Division of Labour. What are its advantages and disadvantages?
5. Explain the different forms of Division of Labour. On which factors does it depend? (Section 7, 8, 9)
6. What is Capital? Explain the process of capital formation. (Section 11, 13)
7. Define capital. What are the functions of capital? (Section 11, 14)
8. Who is an entrepreneur? Explain the qualities he must possess. What are his functions? (Section 16-18)