The Enigma That Is Capital

P. N. Roy*

Capital is many things to different men. To the growth theorist it is the stock of produced means of production available to a firm or an economy at any point in time. To the businessman it is a sum of money available for investment in the expectation of profit and sometimes also the actual plan and machinery already in use. To the rentier it is a claim on income now and in the future. To the entrepreneur it is some necessary inputs. To the accountant it is entries in the valuation account. To an economic planner it is primarily social overhead capital i.e., stock of roads, bridges, ports etc. Educational spending is now a days referred to as investment in human capital. With so many interpretations it is but natural that the concept of capital would be liable to cause confusion. This explains why few concepts in economics have provoked so much controversy over so long a period of time as that of 'capital'. It is also to be noted that it is not only that capital is different things in different eyes which leads to confusion but also that even if one sticks to one interpretation, the validity of this interpretation depends crucially upon the institutional setting. For example, in a capitalist economy, capital is property and conveys rights to a share of the product to its private owners, which is not, of course, a characteristic of economic life in socialist countries.

It is sometimes argued that the concept of capital as produced means of production is quite adequate. But even without making a fetish of precision, it can be pointed

* Dr. Roy is the Professor of Economics Under Colombo Plan, Economics Instruction Committee, Tribhuwan University, Kirtipur.
out that the idea is imprecise. Do we not have cases where we would feel the need for the concept of capital and where yet it is hard to find any produced means of production? Suppose, for example, that a certain production requires a skilled craftsman to execute it. So the workman must first be trained. He must be shunted off from immediately productive labour to undergo the required training and in this way the production process turns out more products. Are we to talk of capital in this case? If so, where are the produced means of production? We seem only to have the workman and the trainer. One can, of course, contend as to why we talk of capital in this case. We do so because there is feature of this example which is closely related to the production of tools. The training that the workman undergoes is not intended to earn immediate reward. Rather, the benefit of that training will occur latter when increased production is obtained. The aspect of this example which stands out conspicuously is that there is a passage of time between the outlay and the return of that outlay and this is an aspect which is also necessarily involved where the production of tools is concerned. The man who stays behind to make himself a fishing net, while others go fishing with bare hands is involved in delaying the arrival of the fruits of his labour so as to make them greater. The labour which he applies today to the making of his fishing net yields him no immediate consumption, but later on he will be able to consume more because of the catches which can be made with the net. All this is suggestive of the fact that the essential element is time. For whatever outlays of labour made or consumption foregone today, benefits will accrue at some point in the future. What we must capture, it may be argued, in the concept of capital is this intertemporal aspect of production and consumption. In other words, time is the essence of capital.

The close relationship between the passage of time and capitalist production was indeed noticed even before the age of classical economics. But classical economists were the first to make the intertemporal aspect the centre of analysis. Given a market system, this aspect of capital is too obvious to be missed. For example, the lender of capital (capital here denoting finance) grants a loan to the borrower to be repaid later. As interest is charged, servicing of the loan requires more value to be paid later. The borrower, therefore, would be induced to put to productive use the time elapsing between the receipt of the loan and the repayment of principal and interest. Thus it is more likely than not that the loan will be used for the provision of working capital, the advance of the wages or the purchase of raw materials. And this indeed was the case on which the classical economists concentrated their attention.

We should, however, be careful to note that even this highlighting of the
intertemporal character of capital does not make its concept even reasonably satisfactory. Once time is looked upon as the essence of capital, it will follow that more capital is more time. This was, in fact, the Austrian vision of capital and capital accumulation. Thus it was argued that a capitalistic method of production is a 'roundabout' method and this method yields more than the direct method. The most productive methods were supposed to be the most roundabout. It will, however, be easily recognised that this indeed is a very special case. It is possible to provide examples in which the most productive method does not take longer but a shorter time. It may, of course, be contended that a few counter examples need not discredit the Austrian vision. After all the bidden good case did not discredit the so called Law of Demand. It may further be suggested that after all the principal purpose of economic theory is to pick upon the essential features of reality and not to bother about every little case and each particular exception. What is expected of a theory is that it must be able to provide a framework that would take in a greater part of reality and reveal more clearly the grand structure. The question then arises as to whether the Austrian vision just does it. It turns out that, unfortunately, it does not consider, for example, the concern of the Austrian Theory for a single rate of interest. Excepting for very simple examples, the idea of a single rate of interest does not hold good. We do not know what to do with heterogeneity of capital goods once we begin to subscribe to the Austrian vision of capital. A further difficulty with the Austrian vision is the lack of any correspondence between its concepts and those which are uppermost in the thinking of men who steer the economy or the firms which comprise it. It is of course not a decisive objection to a theoretical model that its concepts do not reflect the working of the minds of those whose behaviour it is designed to depict. But a correspondence between the two must of course be found and this is the one task which still remains to be performed satisfactorily.

Strictly speaking, there is still a third approach to capital. According to this approach, capital is wealth. Wealth, in its turn, is looked upon as command over current output. Very much like the others, this approach also suffers from the limitation that it picks upon an aspect of capital and treats it as the essence. The principal objection against this approach is, however, that it regards the rate of interest as the price of capital, which it is not as is so well known by now.

One is led to wonder as to why there is so much desire to find something to be the essence of capital. This probably springs from the feeling that capital must be aggregated. While visiting a capital-rich country, one is amazed by the sight of the
various types of capital goods and usually gives expression to it by saying that the country is well endowed with highways, ports, factories, steel plants, etc. But it is quite natural for one to feel that giving such an expression misses an obvious point. The observations of the abundant endowment of a country in various specific types of capital goods do not provide independent information. We expect a country well endowed with highways to be well endowed with factories as well. We do not expect a well-fed nation to go about ill-clothed. Thus one would ask as to whether there is not some sense in which we can say that a country is well endowed with capital without having to detail all the specific items with which it is well endowed. After all we are not dealing with resources such as minerals in which case the endowment is best described when particular items are detailed. Thus capital strongly invites aggregation, if not for any other at least for the case of long-run equilibrium where the composition of the capital stock is the outcome of deliberate selection. But to say that capital urgently calls for aggregation is not to say that it can be aggregated. There is no gainsaying the fact that precise definition of the quantity of capital with which a country is endowed has usually proved elusive. The way out may be that the heterogeneous collection of capital goods is classed together according to their use very much in the same way as farm animals are classed together without any need to add them up to reach a grand total.