Chapter VII

INVESTMENT ANALYSIS
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The utilisation of manpower resources, the development of the wage earning capacity of the worker all of which are very essential for a developing country like India, depend upon the production and hence the productivity of the workforce. To enhance the production either at the national or industry level, investment is essentially required.

It is an often quoted remark, that a country is poor because its people are poor; and people are poor because they are in the grip of interlocking vicious circles of poverty and low wages leading to low investment, and low productivity of labour leading back to poverty.

An underdeveloped country, is in fact, involved in a 'misery-go-round' or what may be called 'self-sustaining poverty' or in other words it may be said the country's poverty is both the cause and the effect of insufficient resource mobilisation which is nothing but capital formation. At the industry level lack of investment would result in lack of or low production and lowered productivity which, in turn results in low wages. Low wages would result in lowered savings and hence complete the circle resulting in lowered investment. Thus the break from this vicious cycle of low investment, would be investment in the required levels. This diet of timely investment in the right magnitudes would help industry to grow, which would result in the growth of the nation and in the process relieve the mass, of the poverty and waste of other resources.

By Investment in fixed assets is meant the investment in plant and machinery, land and building and other installation in an manufacturing unit. Thus the fixed assets determine the production capacity of an organisation and hence its performance. It is generally accepted that the rural industries call for very low
investments in fixed assets, low technology adoption being a major reason. The investment in fixed assets is also considered as an indicator of the level of technology, implying, that the higher the technology higher will be the investments in fixed assets and vice-versa. According to Jagadish Prasad and Rajendra Prasad an increase in capital does not necessarily mean an increase in output (studies done at Patna, Bihar).

A number of specific case studies conducted by the World Bank (in different countries) state that in small manufacturing firms where the optimal size of production is small, it proves to be the most efficient organisation and as the size of the firm increases, by increase in invested capital, a) capital investment per worker rises, b) value added per worker rises, c) the wage rate rises, and d) value added per unit of capital falls consequently. Whether increase in the investments in fixed assets would result in enhanced production performance in the rural industries is a major issue to be contemplated, since the characteristic feature of the rural industries is its capital scarcity. Secondly, will increase in investments (in fixed assets) result in increased manpower productivity in our study.

From the analysis of table 6.1.2.3 (discussed under 6.1.2 - productivity in handloom sector) correlating the average investment (in fixed assets) in the four sectors with the per capita output, it has already been interpreted that the two variables were linearly correlated, implying the capability of increase in average investment in fixed assets to raise the output per capita or the manpower productivity in the rural industries under study.

It has also been computed from the regression model there under that, an average investment of Rs.30,240/- on fixed assets would enable realise an per capita output Rs.1 lakh, in the rural industries.

Consolidating the analysis of the influence of investment in fixed assets on the output derived from applying the multiple regression tool (discussed under 6-1.1,6.2.1, 6.3.1, and 6.4.1) in the various sectors it can be concluded that
increased investments in fixed assets was capable of generating increased output in most of the industries, (The handloom, KVI and tiny sector units other than Handicrafts). The analysis further revealed that the investment in fixed assets and the output were inversely related to each other, significantly, in the SSI units and the handicraft units of the tiny sector indicating thereby that die investments already in the assets in these units should be utilised more intensively in order to raise the output in these units. Thus it is implied that if the basic objective is to raise the output in these rural industries it is imperative to augment the capital in fixed assets only in those industries which are capable of increasing die output. The capital / output ratio was the least in the KVI units, and the highest in the SSI sector, indicating that the KVI units were the most labour intensive while the SSI units were the most capital intensive among the rural industrial units. The capital output ratio for the various sectors under study were 1:1.07 in the handloom units, 1:3.6 in the KVI units, and 1:1.162 in the Tiny sector units (excluding handicrafts).

PERCAPITA INVESTMENT AND PERCAPITA OUTPUT:

It has been concluded from die analysis of the productivity of the rural industries that the per capita investment was not linearly correlated with the per capita output. This would then mean that the labour productivity in the rural industries under study cannot be raised by increasing the per capita investment on labour. It has to be reminded here that in about one half of the rural industries the wages paid were the only investment on labour.

SUMMARY:

Increase in the average investment on fixed assets was capable of generating enhanced output in the rural industries including the handloom, Khadi and Village industries and Tiny sector units excluding handicraft units. The output in the SSI units and the handicraft tiny sector units were confirmed to be enhanced by making a better
utilisation of the investments in fixed assets already made in these units. As mentioned earlier the capital-output ratio was the least in the KVI units (1:36) and the highest in the SSI units (1:1162).

Increments in per capita investment have failed to influence the manpower productivity, in the rural industries under study indicating, the need for technology elevating investments in fixed assets on the whole.