# Investment Criteria

**Criticism:**

This criterion focuses its attention on the maximization of the current rate of investment so that the economy could grow at a rapid rate in the years to come but it fails to take into account the reality of the situation in the LDC's.

**Its main shortcomings are as follows:**

1. This criterion would have adverse effect on income distribution and employment. In many countries reduction of income disparities and unemployment are the main objectives of planning so this criterion cannot be adopted in these countries.

2. It is against the principle of marginal productivity of capital. As the amount of capital is increased in successive doses and offers a point where its productivity starts declining and hence there is fall in output per capita.

3. It does not consider the effect of balance of payments on investment. In an under developed economy there is an acute scarcity of capital goods

which have to be imported and they worsen the already tight balance of payments position.

4. It neglects the importance of consumption; rather it advocates its curtailment. But current consumption may be more important than future consumption and the reinvestible surplus may have to be cut down in the interest of the community. The ignorance of consumer goods sector in favour of capital goods sector brings serious consequences both for economy and the state.

5. Adoption of highly capital intensive techniques may create certain practical difficulties in underdeveloped countries. These countries are generally short of capital and due to this it is not possible for them to concentrate on capital intensive project. Shortage of skilled manpower and entrepreneurial ability may create another difficulty.