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Investment Criteria

Investment criterion means the criteria or the guidelines according to which the Planning Authority distributes the total amount of the community's investible funds into different channels. The main problem is to distribute the investible funds in the different sectors of the economy.

According to Prof. Oscar Lange, **"The problem of an underdeveloped country is not merely one of assuring sufficient productive investment but also of directing that productive investment in such channels as will provide for the most rapid growth of productive power of national economy"**.

The investment criterion implies pick and choose policy. The aggregate volume of investment to be undertaken becomes, meaningful when expressed in terms of concrete investment projects. The programming aspect of investment planning is an important problem of planning in underdeveloped countries.

In underdeveloped countries the investible resources are very much limited according to their increasing needs. Therefore, the planners have to decide regarding the distribution of resources between industry and agriculture, capital goods and consumer goods industries, public sector and private sector. The flow of investment resources in these different sector is influenced by political, social and economic factors.

Allocation of investment resources becomes a difficult task due to the existence of a number of development objectives. These objectives may be conflicting in the short run and hence there are no simple criteria for fixing up the investment priorities.

According to Meier and Baldwin, it is difficult to establish a satisfactory criterion for best allocation of investment because alternative investment criterion will affect total output differently, a certain investment criterion may be more relevant for maximizing output over a different time period.