Chapter III

ECONOMIC DEVELOPMENT AND EMPLOYMENT GROWTH
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3.0 Introduction

Employment, per se, is important as it earns an income for the workers to facilitate their consumption. Workers earning a subsistence income are likely to spend most of it on wage goods, particularly agricultural products. Therefore, employment growth must be followed by consistent growth in the agricultural sector. At the same time there should be sufficient growth of other means of employing the work force, say capital. Any disproportionality in the growth of these sectors is therefore likely to affect the employment growth adversely. To effect proportionality among the different sectors, there should be a proper choice of allocation ratios depending upon the techniques of production. In this light, the present aim is to analyse the determinants of employment, impacts of non-proportional growth and strategies to obtain a fast ascent to full employment. This chapter attempts to elaborate the contents of proposition I.

3.1 Growth and Employment Generation

In the classical literature, except for Marx, growth always ensures a possibility of full employment. Especially in Ricardo's model¹ supply of labour would always adjust to

the demand for it, since he assumed, both demand for and supply of labour, to be determined by the supply of wage fund. Marx, however, gave a wider explanation to unemployment including the causes like particular institutions, uneven expansion, changing techniques, inequality in the holding of means of production. Marx's wider issue appears from his distinct understanding of growing and stationary state while classicist like Ricardo conceived only of the latter, under the assumption of population adjustment in a natural way. Marx had a clear vision of embodied technical progress, concentration of wealth in the process of capitalist growth and the existence of unemployment (reserve army of labour). All these three variables grew in interaction with one another.  

In contrast to Ricardian full employment as a result of capitalist development, Marx visualised the same as a barrier to employment growth. This is due to Marx's distinction between, (i) constant and variable capital, (ii) capital as an instrument of production and as a social relation of production. Employment growth can be forestalled in the Marxian theory, by increased accumulation of constant part of capital and diminution of the variable part: the determinant of employment. The core of his analysis is not just accumulation, but increasing inequality and unemployment. Marx wrote, "... centralisation, expropriation of capitalist by capitalist, transformation of many small into few large capitals"... intensifies and accelerates the effects of accumulation, it

2/ Prasad, P.H., Growth With Full Employment, op. cit.
simultaneously extends and speeds those revolution in the
technical (or organic) composition of capital which raise its
constant portion at the expense of its variable portion,
thus diminishing the relative demand for labour”.\(^3\) Marx's
idea thus combines the inequality or centralisation of the
distribution of means of production, increase in organic
composition of capital and increasing reserve army of labour.

Down to Lewis\(^4\) capital assumed a different role.
Rate of capital formation has formed the basis of productive
employment. When labour is available at a constant real wage
rate, the volume of investment in the modern sector by
parametrically shifting the marginal productivity schedule of
labour, determines the level of employment. As long as there
is disguised unemployment of labour in the traditional sector
real wage rate in the modern sector remains constant. The
economy moves up along an equilibrium path through the rein-
vestment of profits. Constancy of real wage and the technique
of production allows constancy in the rate of growth of
profit and hence the growth of output.\(^5\) To retain the growth

\(^3\) Marx, K., *Capital*, Vol.I, Moscow: Progress Publishers,
1974.

\(^4\) Lewis, W.A., *op. cit.*

\(^5\) Jorgenson, D.M. "Surplus Agricultural Labour and the
Development of a Dual Economy", *Oxford, Economic Papers*,
November, 1967.
rate of profits, constant wage rate needs to be maintained. Since Lewis assumes that somehow average productivity of the traditional sector is the sole determinant of wage rate in the modern sector, the capitalists' interests will be to withhold any rise in productivity in the traditional sector.\(^6\)

The assumption of the constancy of real wage rate is untenable for many reasons.\(^2\) Particularly of the late 60's, decline in the rate of industrial growth in India has been claimed to be due to the lack of agricultural growth.\(^3\)

Chakravarty\(^2\) while interpreting Lewis model in the Indian context shows, through the production function analysis, that given the wage rate and profit maximising behaviour of the capitalist, capital labour ratio in the modern sector is uniquely determined. Given the assumption that workers of the modern sectors receive constant wages in terms of the products they produce, valued in terms of the traditional sector's output, as the terms of the trace move

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\(^6\) Lewis, W.A., op.cit.


\(^2\) Chakravarty, S. Growth Process in Indian Economy, op.cit.
in favour of the traditional sector profits of the modern sector erode. An alternative explanation can be offered in regard to employment prospects in the modern sector when agricultural growth is lagging behind the industrial growth.

Relationship between the two sectors works out through employment, income and expenditure of the workforce in the modern sector. Employment in the modern sector at a constant wage rate generates income in the hands of the workers which raises the market for wage goods, particularly the agricultural product. The relative shortage of agricultural product or the marketable surplus will press the terms of trade in favour of agriculture reducing the subsistence wage rates in the modern sector. Since the minimum subsistence wage rate needs to be maintained for reproduction of labour money (or product) wage rate in the modern sector must increase. As labour becomes costly capitalists will attempt to substitute capital for labour. In case, the substitutability does not exist, there can be reallocation of investment towards more capital intensive sectors. Thus even with a high aggregate growth of industrial output there will be a dampering effect on employment growth.

To show the impact of wage good shortage on choice of technique in the modern sector it is assumed that workers in this sector are paid in terms of the same product. But the product wage rate is equivalent to the subsistence wage in agriculture. Using the terms of trade between the agriculture
and industry the comparability problem of the heterogeneity is eliminated. Wage rate in the industrial sector is equal to that in agriculture.

3.2 Formal Analysis:

In a static framework, let us denote the wage good sector by 'a' and the industrial sector by 'i'. If 'w_a' is the fixed wage rate in the wage good sector, given the terms of trade 'p_a', where industrial price is the numeraire wage rate in the industrial sector may be written as

\[ w_i = w_a p_a \] \hspace{1cm} (1)

From this equation it follows that \( w_i \) will rise by the same proportion as terms of trade go against the i - sector; i.e., as \( p_i \) rises.

We measure the surplus of wage good as 'S_a' which can employ, say, \( L_i \) amount of labour in i, at the given wage rate \( w_a \). Then the following equation holds.

\[ \frac{S_a}{w_i / p_a} = L_i \] \hspace{1cm} (2)

Now, assuming that the i sector has a neoclassical production function

\[ Y_i = F(K_i, L_i) \] \hspace{1cm} (3)

subject to the constant returns to scale and law of diminishing return, we can write the production function in the following form:
The equation can be written as
\[
\frac{Y_i}{f(k_i)} = L_i = \frac{S_aP_a}{W_i}
\]  \(\ldots (5)\)

Taking total differential on both sides equation (5) reduces to
\[
dk_i = - \frac{ds_a(f(k_i))^2}{W_aY_i f^1(k_i)} \ldots (6)
\]

For a given stock of capital \(K_i\) and labour \(L_i\) in \(i\), \(Y_i\) is positive and the marginal product of capital per unit of labour, \(f^1(k_i)\) is positive. \(W_a\) is constant. Therefore, the equation (6) implies that
\[
dk_i \geq 0 \quad \text{according as } ds_a \geq 0 \ldots (7)
\]

That is capital will be substituted for labour wherever surplus of wage good \(S_a\) will decline. Equation (6) gives the inverse relationship between the changes in capital labour ratio and the changes in surplus availability.

In a dynamic setup employment in the industrial sector may be constrained by the growth of wage good sector. In India, during the late sixties decline in the rates of
industrial growth has been explained under different assumptions. One explanation is the extent of internal market limited by low agricultural growth. Another explanation is that the low agricultural growth tilts the terms of trade in favour of agriculture and that ultimately erodes the savings available to the industrial sector.  

Agricultural growth affects industrial growth through its role as the supplier of wage goods, material inputs and market for industrial products. The proponents of internal market argument believe that the gradual shrinkage of the agricultural base, due to low growth, reduces the profitability of internal investment and thus slower the growth of industrial output and employment.

The proponents of terms of trade argument are again divided among themselves. One branch of it explains that the decline in industrial growth through the reduction of savings rate, occurs because agriculture acts as the supplier of material inputs and wage goods. Low growth of agriculture raises the terms of trade in favour of itself. The high cost of production in the industries erodes the profit margins

and savings. The other branch of terms of trade argument explain that the savings propensity of the rural household is lower than that of the urban household. As the income terms of trade favour the rural sector (agriculture) aggregate savings ratio declines.

Clearly, industrial sector can not grow independently of agriculture. Agriculture being a major supplier of wage goods, it constraints the industrial growth by withholding the employment growth. Both the beliefs, however, suggest that to increase the agricultural growth there should be a structural change. Thus disproportionality of sectoral growth rates is also a major barrier to employment growth as well.

Now, if we compare the findings of Sethuraman and Baer and Herve\(^{11/}\) that a particular development strategy resulted in a capital-labour substitution on a grand scale we find that at the root of it is the scarcity of wage goods that explains the phenomenon. Lower the capital intensity lower is the labour productivity which at a given rate of workers' consumption entails lower surplus. This is true of many developing countries. Moreover, consumption


good being a crucial factor for employment generation, such choices that leads to lower consumable surplus cannot sustain the growth of capital good sector as well. This is because, with the growth of capital good production and greater rate of plough back of investment in this sector demand for labour also goes up. The rate of supply of wage good falling short of demand leads, either to substitution of factors, or to the creation of excess capacity.12/

3.3 Some Experiences:

Output and employment in modern sector growth are equal in dual models of growth. But in the developing countries the experience is far from this theoretical truth. Output growth has far exceeded the employment growth (Table III.1). Table III.1, Column 4, shows the employment elasticity of output. Column 5 shows the ranks according to of elasticity. India ranks third in the order of declining elasticity. Over the period 1951 and 1968, performances of Indian manufacturing sector is presented in the following Table III.2.

### Table III.1

Growth of Manufacturing Output and Employment (Per Annua Growth Rate)

<table>
<thead>
<tr>
<th>Country</th>
<th>Output</th>
<th>Employment</th>
<th>Employment Elasticity of Output</th>
<th>Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>4.4</td>
<td>2.0</td>
<td>0.45</td>
<td>4</td>
</tr>
<tr>
<td>Brazil</td>
<td>9.8</td>
<td>2.6</td>
<td>0.27</td>
<td>7</td>
</tr>
<tr>
<td>Chile</td>
<td>5.4</td>
<td>1.7</td>
<td>0.31</td>
<td>6</td>
</tr>
<tr>
<td>Peru</td>
<td>6.6</td>
<td>4.4</td>
<td>0.67</td>
<td>2</td>
</tr>
<tr>
<td>Colombia</td>
<td>7.6</td>
<td>2.5</td>
<td>0.33</td>
<td>5</td>
</tr>
<tr>
<td>Venezuela</td>
<td>13.0</td>
<td>2.1</td>
<td>0.16</td>
<td>3</td>
</tr>
<tr>
<td>Mexico</td>
<td>6.5</td>
<td>0.4</td>
<td>0.06</td>
<td>9</td>
</tr>
<tr>
<td>India</td>
<td>6.8</td>
<td>3.3</td>
<td>0.49</td>
<td>3</td>
</tr>
<tr>
<td>Egypt</td>
<td>5.5</td>
<td>3.9</td>
<td>0.71</td>
<td>1</td>
</tr>
</tbody>
</table>

Table III.2

<table>
<thead>
<tr>
<th>Period</th>
<th>Compounds Rates of Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial Output</td>
</tr>
<tr>
<td>First Five Year Plan</td>
<td>7.4</td>
</tr>
<tr>
<td>Second Five Year Plan</td>
<td>6.6</td>
</tr>
<tr>
<td>Third Five Year Plan</td>
<td>9.0</td>
</tr>
<tr>
<td>During 1951-68</td>
<td>6.5</td>
</tr>
</tbody>
</table>


In the light of above analysis regarding the industrial wage rate and terms of trade there is ample evidence that the product wage rate remained constant over a substantially long period since 1951 to 1971 in India. Also the terms of trade had swung in favour of agriculture. This phenomenon according to Chakravarty resulted in the erosion of the savings rate. This however may not be the only cause of decline in the saving. The main reason for the erosion of the savings may in fact lie in the capitalists indulgence in the luxury consumption.  

To keep up the income of the rich it is likely that production of luxury commodities needs to be stimulated. The commodities are usually more capital-intensive.

intensive. Given the volume of investment, increase in the production of luxury goods implies a cut in the production of essential goods of labour intensive variety.\footnote{\textit{Bagehi, A.K. "Long Term Constraints on India's Industrial Growth, 1951-68", op.cit.}}

3.4 Investment and Sectoral Choice of Technique:

Foregoing analysis has attempted to show the shortage of wage goods as a constraint on employment generation. This is suggestive of generating an appropriate growth process. Economic theories of investment criteria and choice of techniques suggest that aggregate growth rate be maximised. The recognition of severe unemployment and underemployment geared emphasis of planning towards different directions. One group considers that (i) present capital stock is not sufficient to equip all workers in a productive way and (ii) present wage fund to feed the workers is insufficient if they are to be productively employed. The latter thought takes labour to be the only basic factor of production while the former considers capital as basic a factor of production as labour is.

Despite the theoretical niceties of the above schools of thought, practically the countries in question are endowed with some amount of physical capital stock and
wage fund during the formulation of their plans. Due attention is needed to obtain both the factors such that in future the full employment be achieved. Unfortunately, the idea that labour force has to be equipped with capital if they are to be productively employed ignores the problem of consumption of those workers. Option is taken to step up investment in capital good industry with a view to maximising the growth rate without proper care for consumption good. Assume that at a given date a country has sufficient stock of capital to employ all workers, but the supply of wage good at that date, given the wage rate, can employ only half the workers otherwise permitted by the capital stock. The likely result is to shift to more capital intensive technique or generate excess capacity. The lack of wage fund defeats the objective of full employment which was aimed at in the beginning by maximising the growth rate of capital good.

The balance between the supply of capital good and wage good through time is a delicate problem when employment generation is the objective. Now the question may be put as to what is the rate of growth that the economy can achieve, given its initial stock of capital and the techniques of production in various sectors? An interrelated question is what are the determinants of the rate of growth?
The solution to the first question involves the allocational decision where as the second question is little more complicated by structural issues like choice of technique and institutional barriers.

The answer to the first question was a great concern to Prof. Mahalanobis. The problem of unemployment greatly influenced him to allocate a lion's share of investible fund to the capital good sector with a view to eliminating unemployment by supplying productive capital within the shortest possible time. To solve his system of equations he was left with some degrees of freedom which suggested an arbitrary choice of allocation to the capital good sector. But the sectoral choice of technique of the model did not easily accommodate the growth of savings in the form of consumable surplus for new employment opportunities that would be created by the production of capital good. The possible imbalance that might be created by over stressed allocation in capital good sector had been noticed by Prof. Bettelheim.

15/ Mahalanobis, P.C., Approach of Operational Research to Planning in India, op.cit.
17/ Vakil, C.W. and Brahmananda, P.R. Planning for an Expanding Economy, Bombay, Vora, 1956.
The answer to the second question is more important which restricts the arbitrariness of allocational decision. The answer was found in one form or other in the works of Bettelheim, Dobb, and Sen, among others. The analysis of these authors rests on the theoretical plane of choice of techniques.

In the field of empirics extensive studies on the mode of production in different sectors of the Indian economy, suggests constraints on growth and proper choice of technique.

It is worthwhile to note some observations on India's planned industrial growth and employment since the second plan.

In India, as in many Latin American countries, the rate of growth of industrial output is marked to have surpassed the rate of growth of employment.

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22/ Baer, W. and Nerve, M.E. on cit.
registered manufacturing sector the elasticity of employment to output growth has in fact been close to 0.5. A sharp difference between the two rates of growth is ascribed to the widespread capital-labour substitution in the industrial sectors, during the process of development. This is a likely result of overstressed allocation of investment towards industrial sectors. While studying the employment aspects of industrialisation in India, Prof. Sethuraman finds that the development strategies of the second and subsequent plans have induced the industries to shift to more capital intensive techniques. 23/

Main contention in the present analysis is that neither only the supply of physical capital nor the supply of wage (or consumption) good is a sole factor that improves employment situation. With the long run objective of full employment both capital and wage goods need to grow in a correct proportion. This leads us to decide allocation of investment depending upon the techniques of production in the capital and wage good with proper consideration about the supply of wage fund. Analysis is restricted to a two sector model with constant returns to scale of production in a closed economy. The relevant variables of the capital good sector

23/ Although Sethuraman finds a positive correlation between the growth of physical capital and employment of skilled labour and reduction in the growth rate of employment of low skilled labour, skilled labour can be treated as human capital as well.
will be denoted by subscript 1 and that of consumption good sector by 2. The wage rate is assumed to be pegged down at the subsistence level and uniform over the two sectors. The depreciation of capital is assumed away.

Let the production structure be written as

\[ Y_1 = a_1 K_1 \ldots \quad (1.a) \quad \text{and} \quad Y_2 = a_2 K_2 \ldots \quad (2.a) \]
\[ L_1 = b_1 K_1 \ldots \quad (1.b) \quad L_2 = b_2 K_2 \ldots \quad (2.b) \]

\( Y_i, K_i, L_i \) are output levels, stock of capital and employment in the \( i \)th sector; and \( a_i, b_i \) are respectively capital productivity and labour-capital ratio of the \( i \)th sector; \( (i = 1, 2) \). We shall use the term labour intensity for labour-capital ratio.

At any moment of time, total stock of capital is allocated between the sectors in the proportions \( X_1 \) and \( X_2 \) i.e.,

\[ X_1 + X_2 = 1 \quad \ldots \quad (3) \]

\[ 0 \leq X_i \leq 1 \quad (i = 1, 2) \]

\[ X_1 K = K_1 \quad \text{and} \quad X_2 K = K_2 \quad \ldots \quad (3') \]

This indicates that employment \( (L_1 \text{ and } L_2) \) will be determined, once \( X_1 \) or \( X_2 \) is known. What value shall be assigned to \( X_1 \) or \( X_2 \)? The consideration of high rate of growth influenced India's second plan model to set the value
of $X_1$ arbitrarily. We, instead, put one more constraint to determine the allocation from within the system. The constraint is that the consumable surplus in Sector-2 will be equal to the wage bill in Sector-1. This is what Prof. Bettelheim calls 'non-inflationary condition'. Given the wage rate ($w$) this determines the employment in sector-1.

The constraint is written as

$$L_1 = L_2 \left( \frac{P_2 - W}{W} \right) \quad \ldots \quad (4)$$

where $P_2 = \frac{a_2}{b_2}$, is the average productivity of labour in Sector-2.

Equations, (1b), (2b), (3), (3') and (4) are sufficient to determine the values $L_1$, $L_2$, $X_1$ and $X_2$.

From equations (1b), (2b), and (3') we can write equation (3) as

$$\frac{L_1}{b_1} + \frac{L_2}{b_2} = K \quad \ldots \quad (5)$$

where $K$ is given. Applying equation (4), the employment level in the consumption good is determined by

$$L_2 = \frac{K}{(P_2 - W) \frac{1}{b_1} + \frac{1}{b_2}} \quad \ldots \quad (6)$$

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24/ The method of solving $X_1$ and $X_2$ is given in Bettelheim C. on cit. (4) for completeness, we reproduce the derivation here.
Using equation (2b), we can solve for $X_1$ and $X_2$. The values are

$$X_2 = \frac{1}{\left(\frac{P_2 - w}{w}\right) \frac{b_2}{b_1} + 1} \quad (7')$$

$$X_1 = \frac{b_2(P_2 - w)}{w} \frac{1}{\frac{b_2 (P_2 - w)}{w} + b_1} \quad (7)$$

In order to find out the employment path, it is necessary to define the rate of growth of the economy. The rate of growth of the economy, a la' Mahalanobis, is given by the ratio of the amount of additional capital produced to the stock of capital employed. From the equation (1a' and (3') the rate of growth derived is

$$\frac{Y_1}{K} = a_1 X_1 \quad \ldots \quad (8)$$

It is clear that the higher the value of $X_1$ higher is the rate of growth.

Now, it is quite obvious that the full employment level will be reached earlier for a given rate of growth with alternative labour intensities of the economy as one moves from lower labour intensity to higher ones. From the equations (1b), (2b) and (3') the aggregate labour intensity can be written as
and this generates the employment growth equation

\[ L = b_1 X_1 + b_2 (1-X_1) \]

Since \( X_1 \) and \( X_2 \) are inversely related \( \text{equation (3)} \), an interesting property follows from this is that whenever \( X_1 \) rises the rate of growth rises \( \text{equation (5)} \), and the aggregate labour intensity rises or falls according as the case (i) \( b_1 > b_2 \) or case (ii) \( b_1 < b_2 \). Let us distinguish the case (ii) by prime marks on the relevant parameters. The case (ii), i.e., \( b'_1 < b'_2 \) was chosen by Mahalanobis in his model.\(^{25}\)

For case (i), every rise in \( X_1 \) leads to higher initial employment, and in the case (ii) rise in \( X_1 \) lowers the initial employment. In both cases the time interval required to achieve full employment depends upon the rate of growth. The rate of growth depends upon the capital productivity \( a_1 \) and the allocation ratio \( X_1 \) \( \text{equation (8)} \). The growth rates in two cases (i) and (ii) differ, we have to judge from the above equations which technological

\(^{25}\) Mahalanobis, P.C., Approach of Operational Research to Planning in India, op.cit.
combination \( b_1 > b_2 \) or \( b_1' < b_2' \) will lead to full employment in the shortest possible time.

From equations (7') and (7), it is clear that if \( b_1 \) declines \( X_1 \) increases. If \( b_2 \) declines along with more than proportionate rise in the productivity of labour \( (P_2) \) in the consumption good sector, \( X_1 \) rises. Owing to the changes in the labour capital ratio in the capital good sector it is likely that productivity of capital in this sector will change in the same direction where the allocation ratio changes in the opposite direction. Therefore, whenever \( b_1 \) in the case (i) differs from \( b_1' \) in the case (ii) one cannot be definite about the rise or fall in the growth rate due to changes in technique of production in the capital good sector. It is a matter of empirical verification whether a fall (rise), in the productivity of capital due to a decrease in the labour intensity, is outweighed by a rise (fall) in the allocation ratio.

To keep the matter tractable, we assume that in the cases (i) and (ii) the techniques of production in Sector-2 are same. There may not exist alternative techniques in the modern capital good industry. In this case productivity of capital in the capital good industry is same for both the cases. Allocation ratio will now differ only due to the choice of technique in the consumer goods sector. The choice of technique (or labour intensity) in Sector-2 (consumers goods) implies the choice between case (1) and case (2), since the
techniques in the two cases differ for sector-2 whereas the labour intensity of sector 1 (capital good) is assumed to be same for both cases. To capture the two cases together for same labour intensity in the capital good sector, we have the following relation:

\[ b_2^* > b_1^* = b_1 > b_2 \]  \hspace{1cm} (10)

In order to choose between the cases, we introduce an assumption that any fall in the labour intensity will raise the labour productivity more than proportionately in the consumer good sector. Recalling the equation (7), note that if we choose a lower labour intensity in sector-2, \( X_1 \) rises. This results in a rise in the growth rate because \( b_1 \) and \( a_1 \) are given. Suppose that the existing technical combination for the two sectors is \( b_1^* > b_1 = b_1 \), (case ii). If we move down to \( b_2 \) (case i) from \( b_1^* \) as in relation (10), \( X_1 \) rises and hence a higher rate of growth is achieved (since \( a_1 \) is same for the two cases).

Further, with every rise in \( X_1 \) in the case (ii), there is the phenomenon of trade-off. Rate of growth can be raised by raising \( X_1 \) at the cost of initial employment. But in case (i), every rise in \( X_1 \) leads to higher initial employment and higher rate of growth.

This implies, if the consumption good sector is relatively less labour intensive than the capital good sector,
diverting more investible fund to the latter, the rate of growth of the economy can be raised and the target date of full employment can be drawn nearer. But choice of $X_i$ ($i = 1, 2$) is solely dependent on the technology which gives feasible growth rate as against any pre-conceived growth rate for which choice may be arbitrary. For lower value of $b_2$ if higher surplus of consumable goods is available through the rise in labour productivity more and more workers can be employed in capital good sector to produce more capital good along with consumption good, consolidating the possibility of employment for the future generation. This is shown by a diagram below, for a rise in $X_1$, both initial level of employment and the rate of growth increase, making the employment path steeper in the case (i) than in the case (ii). $A A'$ and $B B'$ are the employment paths in the case (i) and (ii) respectively. $M_0 N_t$ shows the supply of labour over time. In the diagram I, case (i) always rules case (ii) showing the quicker traverse towards full employment.
If the technical combination so desired is not available in the real world we have many commodities to substitute one for the other so that maximum rate of surplus could be reaped.

The relation $b_1 > b_2$ is desired for faster growth and employment without trade-off. Lower $b_2$ is assumed to imply higher or more than proportionately higher productivity of labour to result in larger surplus of consumption good.

3.5 Summing up:

The above model explains that investment decisions are required to be based on the available techniques of production and the supply of wage goods. If alternative techniques were available, consumer goods should adopt more capital intensive technique than the capital goods sector. This resolves the question of more current employment now or in future.

The model, however, ignores the aspects of disguised unemployment. Disguised unemployment through growth can only be eradicated when growth can eradicate open unemployment. That is a remote possibility. Because, even if the supply of wage good is not a constraint, there can be inequality in income distribution which can affect the employment growth through its influence on the structure of demand in the economy. Therefore, more important drive towards full employment would be to cure the distributional maladies.