INTRODUCTION

"The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."----- Keynes in General Theory, Chapter 24.

"Meanwhile, each succeeding winter brings up afresh the great question, 'what to do with the unemployed'; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed losing patience will take their own fate into their own hands."---- Engels in Preface to the English edition of Marx's Capital Vol I.

The above mentioned lines were written by two great minds on the question of unemployment. The quote from Keynes is more than 70 years old, while that from Engels is more than 120 years old. Still, both these sentences can depict the reality even today, where millions of people around the world are still unemployed, living under misery and destitution.

While these lines are relevant even today, capitalism, apparently, has changed completely since the days of Engels and Keynes. When Engels was writing the preface
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to the English edition of Marx's *Capital*, the world had not witnessed the devastations unleashed by the First World War. Rather that period, before the First World War, constituted a period of long boom under capitalism. On the other hand, Keynes was writing in the immediate aftermath of the Great Depression which was one of the most severe crisis to afflict capitalism in its history. Today, on the other hand, we are witnessing another phase of capitalism where it is mainly characterised by the rising to dominance of international finance capital. The striking point however is that unemployment persisted as a problem in all these periods of capitalist history. The question that naturally arises is what explains this persistence of unemployment under capitalism?

The first chapter of the thesis tries to answer this question. A review of different theories is undertaken to establish the fact that, theoretically, there exists no mechanism under capitalism to guarantee full-employment. Moreover, it is also shown that the existence of unemployment under capitalism is essential for the stability of the system. The theories which show full-employment under capitalism, essentially assume away the existence of demand constraint under capitalism. We however believe, in accordance with Keynes and Kalecki, that capitalism is essentially a demand constrained system. It is argued in the first chapter that in such a system sustained growth under capitalism cannot be explained by endogenous factors only. There has to be exogenous stimuli for growth; innovations and external markets being the two most important exogenous stimuli.
It is however argued that historically, external markets played the most prominent role in sustaining growth under capitalism. The entire history of colonialism and imperialism was essentially aimed at capturing the external markets which actually ensured a higher growth for capitalism. Not only that; as a result of the exploitation of the external market, advanced capitalism managed to reduce their labour reserves to a significant extent, where majority of the workers were shifted out from agriculture and employed in other high productive sectors in the economy. Without the existence of the external markets, which are the developing countries of today, capitalism could not have sustained either a high growth or reduced their labour reserves, in the period preceding the World War I.

This exploitation of the external markets on the other hand, resulted in devastation of these economies, whereby as a result of the siphoning of the surplus from these economies, the developing countries inherited a backward production structure and massive labour reserves. The genesis of poverty, low level of development and massive unemployment in the developing countries can be actually traced to the colonial exploitation of these economies. After independence it was suggested that industrialization should be undertaken in the developing countries which will shift the workers from agriculture to the modern sectors, as was formulated in the Lewis Model. Moreover, in order to go for such industrialization, it was imperative for these countries to pursue a path which was autonomous to world capitalism, at least to a limited degree. Chapter 2 of the thesis traces this historical evolution of the massive labour reserves in
the developing countries. Moreover, the chapter provides a critique of the Lewis Model and the impact of Import Substituting Industrialization on the question of labour absorption in these economies. Finally, the chapter looks at the challenges posed by the current phase of capitalism for developing countries to absorb their labour reserves.

There is however a view that the basic problem with the developing countries is that they are not growing fast enough to absorb their labour reserves. In other words, the problem of absorption of labour reserves in the developing countries can be solved by increasing the growth rate of the economy. Is this view correct?

In order to look into the validity of the above argument we look at the employment trends in the two countries which have witnessed the highest rate of growth of GDP in the world, in the recent past, namely India and China.

Chapter 3 gives the employment trends in India in the recent past, particularly the post-reform period. It is seen that the employment growth rate in India has decreased in the post-reform period as compared to the pre-reform period (the 1980s), which has been accompanied by a worsening of conditions of the workers, both in terms of conditions of work as well as the wages. Moreover, the unemployment rate in India also increased during this period.

Contrary to the above mentioned view that high growth rate of GDP reduces the unemployment problem, in India, the period of slow growth of employment, and
worsening conditions of the workers was precisely the period when the growth rate of GDP in India was the highest. Chapter 4 analyses the growth process of the Indian economy in the post-reform period and shows that the growth process in India has been such that it cannot generate enough employment for the people. It is argued that with the implementation of the reform process in India two things happened. Firstly, inequality has increased in the economy. Secondly, the demand in the economy is now sustained by the consumption of the rich. This has resulted in replication of the labour saving innovations of the advanced capitalist countries in India, which has limited the scope of absorption of labour reserves in the economy. Moreover, as a result of trade liberalisation, India has been sucked into the competition in the global market, where in order to survive technological progress in accordance with what prevails in the advanced capitalist countries is necessary. This has also reduced the scope of labour absorption in India, even with a higher rate of growth.

Chapter 5 of the thesis focuses on the employment problem in China. It is shown that the growth rate of employment in China is very less even when the country has witnessed the highest rate of growth of GDP for the last 30 years. The causes of this is identified in the fact that with reforms, the responsibility of the state in providing employment to the people, through the State Owned Enterprises has declined. More importantly however, the growth process in China is primarily dependent on its exports. Now, in order to export more, China has to incorporate the labour saving technologies of the advanced capitalist countries, in its production structure. This then entails a lower rate of absorption of the labour
reserves.

In short, the main purpose of this thesis is to ascertain that persistence of labour reserves in the developing countries, is a result of the interaction of these countries with metropolitan capitalism. The exploitation of the developing countries during the colonial era resulted in the genesis of the labour reserves in the developing countries. At present even when the developing countries, particularly India and China are witnessing rapid economic growth, the employment generation has in fact slowed down. This points to the fact that achieving higher rate of growth is not a sufficient condition for generating more employment.