"The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of mind, a technique of thinking, which helps its possessors to draw correct conclusions.

- John Maynard Keynes"
Theoretical Aspect of Full Employment:

Employment problems and policies are closely related to other social and economic problems and policies. Full employment yet to be defined precisely, is regarded now as a major step to achieve conjointly with the other objectives of higher standards of living and greater equality of incomes. It is universally recognised that the maintenance of full employment is one of the important objectives of economic policy. Now emphasis has shifted from unemployment as a major social problem to employment as a major task of planning. In this connection it is necessary to mention this fact that the major goal of social and economic policy is not only the achievement and maintenance of full employment but also that the employment should be freely chosen and be productive.¹

Full employment as an attainable and practicable objective must be clearly defined in such a way as to allow for the non-employment not only of person unable or unwilling to work, but also of a limited number of persons out of work at any particular time, because, although jobs are available, they have for one reason or another not yet taken them up. A search for a precise definition will not be fruitful especially since it will probably never be possible to determine statistically the point at which employment is

¹ The objective of "full productive and freely chosen" employment as a major objective of employment policy was recommended by the International Labour Conference in 1961.
full. There is no formula regarding the operational
definition of full employment, except this that there
should be work for all who are available for and seeking
work. According to Lord Beveridge, full employment
"means having always more vacant jobs than unemployed
men" and in numerical terms it exists when the number
of unemployed does not exceed 3 percent of the number of
employees excluding seasonal unemployment. The official
definition of the Government of the United Kingdom is
in effect the same; the full employment standard is "a
level of unemployment of 3 percent at the seasonal peak.
The full employment is defined negatively as (a) the absence
of general unemployment or underemployment, whether due to
a deficiency of aggregate demand or a shortage of capital
and/or land, and (b) the minimisation of regional and
sectoral unemployment and underemployment. But this is not
a clear definition which provides precise guidance as to how
much regional or sectoral unemployment can reasonably be
considered compatible with "full employment". Sometimes it
is said that a country has achieved full employment point
even though a number of its workers are unemployed on tasks
that do not offer full scope for their productive capacities.
Full employment is also defined as a state of affairs in which
there is work for all who are available for and seeking work.
The term is widely interpreted as a state of affairs in which

1. Beveridge "Full Employment in a Free Society", pp. 18,
120-128.
2. U.N.: "Problems of Unemployment & Inflation", 1950, 1951,
a person available for and seeking work has a good expectation of finding in a short time a job which in the circumstances and by the standards customarily applied in the country concerned would be considered suitable by a reasonable man.

Concern over employment is not of recent origin. Prior to Keynesian theory of full employment, the main subject of discussion of economists was the definition and measurement of full employment. But any economist of repute could define or measure full employment precisely. Theoretically, full employment is not an unambiguous concept and many attempts have been made on this level to define it as clearly as the concept demands. But credit goes to Keynes more, than any other economist for popularising the concept in economic literature and analysis. In classical terminology "full employment" means the full employment of resources - all kinds of resources, including capital raw materials as well as labour. The new meaning is the more popular one of full employment of the labour force. It has been variously defined.

The systematic and explicit analysis of classical theory of employment is found in the writings of Pigou who had written extensively on unemployment. Though Malthus recognised the possibility of general glut in the production process and consequently unemployment in the economic system
itself. He had given primary importance to the analysis of population theory and law of diminishing returns and secondary position to unemployment. His predecessors, Adam Smith and others did not consider unemployment as a problem and his contemporary Ricardo ruled out the existence of general unemployment in the system and made reference only to technological unemployment. In the classical tradition Karl Marx was the first economist who pointed out on theoretical and logical grounds in his analysis that unemployment is inherent organically in the capitalist system itself. Generally the classical economists had accepted explicitly the Say's Law of Markets as the true explanation of the working of the economic system which gave a concrete formulation to the idea that general overproduction and hence general unemployment are impossible. According to J.B. Say, general overproduction is impossible because "it is production which creates markets for goods". In other words supply creates its own demands. Though after T.R. Malthus, J.S. Mill also took great pain to refute the idea that the demand for commodities in general might fall short of supply which causes overproduction and unemployment.

The classical theory is based on the assertion that "full employment does, indeed, not always exist but always tends to be established."¹ There can not be general unemployment in an economy. Whatever unemployment is there is caused

either by immobility of labour or by unwillingness of labourers to accept lower wages in response to a fall in marginal productivity of labour. The classical theory assumes the existence of full employment excluding voluntary unemployment as a normal feature of a free enterprise economy, and if there is less than full employment in the short run, it is due to either government interferences with the free play of market forces or more generally to monopolistic practices. In the short period due to some causes in particular industry, unemployment appears but if the workers accepted the low wages which is suited to that industry the unemployment should disappear in the long run. In other words, if there are no interferences to the conditions of perfect competition, an equilibrium situation would eventually be achieved automatically by a bidding down of wages to the point where every body who wished to obtain employment at that rate succeeded in finding work.

According to Keynes, classical theory is based on two fundamental postulates: (i) the first postulate is that "the wage is equal to the marginal product of labour, and (ii) the utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of unemployment. Disutility must be understood here to cover every kind of reason which might lead a man or a body of men, to withhold their labour rather than accept a wage which might to them a utility below a certain minimum.
The volume of employed resources is duly determined, according to the classical theory of employment, by the two postulates. The first gives us the demand schedule for employment, the second gives us the supply schedule, and the amount of employment is fixed at the point where the utility of the marginal product balances the disutility of the marginal employment. Lord Keynes asserted that classical theory allows only for two possibilities - "frictional unemployment" and "voluntary" unemployment. The classical postulates do not admit of the possibility of the third category, that is, involuntary unemployment.

J.M. Keynes was not disagreed with the classical theory as a whole. He accepted the classical theory of value and distribution. These theories were primarily concerned with the distribution of a given volume of employed resources between different uses and with the conditions which determine their relative rewards. He himself admitted that the value and distribution part of the classical theory have been constructed with great care for logical consistency. He was critical of the aspects of the system of classical school, that is, one is related to Say's law of markets - supply creates its own demand and the Pigouvian version of full employment. What determines the actual employment of the available resources which is, according to him "misleading and disastrous if we attempt to apply it to the facts of
experience and the economic society in which we actually live.

Keynes rejected the classical theory of unemployment which in his view — asserted (i) that "wage bargains" between workers and employers determines real wages; and (ii) that the level of real wages thus arrived at determines the amount of employment. He agreed — basically on the assumption of diminishing returns — that "an increase in employment can only occur to the accompaniment of a decline in the rate of real wages. He disproved in his "General Theory" a fundamental proposition of classical economics — that the most frequent cause for an unsold surplus of a commodity is the refusal of sellers to accept a price that will clear the market. The classical contention is that if wage rates are above the level of the marginal productivity of labour, there will be unemployment. In other words the chief reason for unemployment is the existence of wage rates above the point of labour's marginal productivity.

He was the first academic economist of high professional repute since T.R. Malthus to attack the doctrine that the economic forces of a private enterprise economy tend to bring about the employment of all who wish to work at the prevailing wage rates. He also rejected the assumption of full employment of labour and other resources as assumed by the classical

economists. He also rejected the classical approach to the general analysis and pointed out that a general wage cut would lessen the purchasing power in the hands of the workers which would result in cutting down their effective demand for the products of industry. Thus the general wage cut would lessen the volume of employment.

Classical conclusions are valid when one is merely attempting to apply partial equilibrium analysis to the over production problems of a particular industry. But classical economist who used this kind of analysis often extended their conclusions to the economy as a whole. They suggested that general unemployment and over production could be met in the same way by a general cut in wages. But if there is general over production it is unreasonable to try to solve the problem created by applying partial equilibrium analysis.

The stationary state is the main assumption behind the classical economics which co-exists with long period equilibrium and is applicable to a particular case of full employment only and not to the all situations and levels of economic activity which the general theory of Keynes studies including even that or those which the classical theory studies. The apparatus of theory of Keynes not only provides an answer to what the classical economists did not study, it also provided an answer to what the classical economists did study.
Keynes grouped unemployment into three categories: frictional, voluntary and involuntary. According to his definition, both frictional and voluntary unemployment are consistent with full employment. There could be no involuntary unemployment at the full employment level of economic activity. There is no quarrel between Keynes and classical economists regarding assumptions behind their theories, but difference arise when Keynes advocates that appropriate way to bring about this decline in real wages is not through a decline in money wages, but through increase in effective demand and output. He maintained that aggregate consumption and investment spending - not the wage bargain - determine the levels of employment, output and real wages.

The logical starting point of his theory of employment is the principle of effective demand. The volume and extent of employment depend upon the level of effective demand. The effective demand is determined by the aggregate demand function and aggregate supply function and the intersected point is the point of effective demand. It is not a static point but a dynamic point. As the general economy of a country advances, this point is also shifted. Economy having general equilibrium, will have less than full employment in the Keynesian sense at this equilibrium level of effective demand because there is no automatic mechanism ensuring that attempted restraint from consumption (saving) is exactly balanced by investment.
This is to say, employment in an economy is a function of the national income. The greater the national income, the higher will be the employment. But in practice as national income increases, national consumption does not increase in the same proportion as national income. There arises a gap between community's income and consumption. Therefore in order to have sufficient demand to sustain an increase in employment there must be an increase in real investment, equivalent to the gap between income and the consumption expenditure out of that income. Thus the core of the principle of effective demand is that employment can not increase unless investment increases. In order to promote employment effective demand should be increased by increasing investment.

His entire theory of employment is concerned with his explanation of the behaviour of effective demand and his exposition of economic policy necessary for increasing the volume of demand to the level adequate for securing full employment. He first took certain important elements in the economic system as given, then he analysed the remainder into independent and dependant variables. In his system, the independent variables - as influenced by the given factors - were regarded as determining the dependent variables of employment and income. Briefly, Keynes' independent variables - the propensity to consume the liquidity preference
and the marginal efficiency of capital, were quantities and psychological relationship capable of changing aggregate consumption and investment spending.

He assumed that less than full employment is a normal situation in an economy whereas full employment is an abnormal phenomenon. The sharp distinctions between his point of view and that of the classical theory not only lay in the separation of voluntary unemployment but also in the differentiation between voluntary unemployment (said to be recognised by the classical theory) and "involuntary unemployment (which was said not to be recognised by classical economists). His theory is moderately conservative in its implications and accepts socialization of investment as a powerful weapon to fight unemployment. He has shown that there is a monetary answer to the problem of unemployment, but the problem has much more than a monetary aspect - it has also its technical, social and institutional aspects in the long run. The vastness, complexity and extreme dynamism of full employment is not presented in the Keynesian system, nor are its full implications in social and institutional terms in the long run. He, showing that the capitalist system can work over a short period, does not say anything, about the long period aspect. The problem of achieving full employment has been solved theoretically and practically many times. Whereas the problem of maintaining full employment in the long run has been solved neither theoretically nor practically. The problem is
really how to maintain full employment, not how to achieve it.

Now we shall consider the validity of Keynes' theory of employment in under-developed countries. It was a hotly debated issue in economic analysis whether the system of economics propounded by Keynes in his magnum opus; "The General theory of employment, Interest and Money" is applicable with profit or not to an underdeveloped countries like India which was victim of colonialism and is steeped in traditionalism with a value system entirely different from the one which prevailed in the western economy. In the past the western economist could not go into the theoretical analysis of the problems of underdeveloped countries because they treated economic development and its allied problem "as something like a natural process that takes care of itself". Their point of concentration was the study of the problems facing advanced countries. The economic theories evolved by the academic economists have inherent bias of western countries' conditions and institutions. The present thinking is that it would be unrealistic on the part of the underdeveloped countries to accept the existing economic theories uncritically. Since a large part of these theories are nothing but nationalization of the dominant interest in the advanced countries and the theories were not developed to take account of the development of less-developed countries
and were developed in the west with their own interests and problems. Therefore the theories evolved and applicable to advanced mature economies are not valid to under-developed countries and do not offer the convincing explanation of the facts of life in these countries. He believed himself in trial and error method and his approach was pragmatic and not dogmatic. But attempts have been made by the post Keynesian economists to apply this theory universally and modifications and/or amplifications have been done in the original theory so that it may best be suited to the conditions of underdeveloped countries. Though Keynes propounded his theory with a view of the developmental stage of the western mature economy and not those economies which are in transitional immature stage of economic growth process.

According to Keynes, deficiency of effective demand is the cause of unemployment and the problem is one of idle plant and equipment. The problem of surplus idle capital is a peculiar characteristic of an advanced capitalist economy. The problem in under-developed countries is radically different. The factors of production excluding labour are not available sufficiently in under developed countries. The problem of idle labour is peculiar to an under-developed country where it can not be absorbed with existing technical resources and with existing methods of production. The problem is not of effective demand but of
inelasticity of supply of capital stock and equipment. For this reason savings fail to rise to equality with investment. In an under-developed country, having mostly subsistence economy, consumption is a function of output and real income rather than of demand and of money income. There is always a reserve of unsatisfied demand to absorb any large amount of supply but the former is being languished in stagnant pools, deprived of the fertilizing effect of sufficient purchasing power. The propensity to consume is too strong in an under-developed economy and more or less equal to unity but purchasing power is lacking. The purchasing power of the people can be raised only through an improvement of the productive mechanism capital equipment and structural reorganisation of the economy. Thus the problem of under-developed countries is the problem of capital formation and not of capital utilization. It is the problem of growth and not of what constitutes growth. Therefore in an advanced economy where the productive mechanism is well developed and equipped, the theory of effective demand throws sufficient light to explain the instability of an economy, but can not enlighten as much with reference to an under-developed economy. What is required by an under-developed country is a theory of economic development and a new interpretation of the concept of full employment in the sense of full utilisation of all available resources material and human in the meaning of not only work for all
but good and sufficient work for all.

Unemployment in less developed countries appears in many forms. Unemployment in the Keynesian sense is rare, except probably in the industrialised sector. Deflationary or cyclical type of unemployment involving large number of workers employed on wage basis is unknown to under-developed economies. In these countries unemployment results inevitably from the mere lack of equipment and materials to work with. This type of unemployment is of great importance for it occurs not merely as a temporary phenomenon but exists chronically "in the backward, overpopulated countries of the East, and indeed, everywhere except among the most developed 'industrial nations'. According to Kindleberger in such type of economy there is "structural disequilibrium at the factor level". Opportunities for technical substitution of factors are limited because of the inappropriate factor endowments.\(^1\) Therefore unemployment is inevitable under the assumption of constant technical co-efficients and abundance of labour in relation to other factors.\(^2\) The phenomenon which exists and results from this cause is radically different from the unemployment visualised by Keynes. The problem in an under-developed country is one

of under employment rather than of unemployment. The problem with which Keynes was concerned hardly exists in such an economy. The unemployment in the under-developed countries does not take the shape of involuntary unemployment like in industrially advanced countries. In these countries, unemployment through fluctuations of effective demand is not a matter of primary concern for under-developed countries. The major problem is the existence of a chronic stage of under-employment of available man power owing to the low level of economic development. The presence of disguised and seasonal under-employment make a significant difference to the working of the Keynes' theory of employment in these countries. Thus what Keynes advocated for the highly industrialised countries can not be applied with equal merit to the case of under-developed countries.

He was concerned with the problem of involuntary unemployment in highly developed countries. His "General theory" is basically a theory of full productive capacity employment. It becomes accidentally a theory of full employment in economically advanced countries where are in existence large productive capacities relatively to labours. Thus his whole thesis is related to the question of how to secure full employment in advanced countries. He did not formulate any special thesis for the under-developed countries. As such what he advocated for the industrialised countries can not be
applied to the case of under-developed countries.

His economics is concerned mainly with depression and consequent unemployment in developed countries. Keynes' economics is only applicable to depression and inflation problems of developed economies and has no relevance to the problem of idle resources in under-developed economies. His General Theory provided the theoretical framework for the analysis of the problems of an advanced economy in a state of under-employment equilibrium. Although his theory revolutionized the theory of business fluctuations, it was confined only to short term analysis, though his central thesis related to long period. This is because his main interest lay in the development of society which had already achieved the maturity stage of economic development in which there is remote possibilities in sizeable change infundamentals in the long run in "the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the existing techniques, the degree of competition, the tastes and habits of the consumer ..... and organisation as well as social structure ..... which determine the distribution of national income". In an under-developed country, on the other hand, changes in these basic factors is the sin quo non of economic development. Thus Keynes gave us no guidance on the problem and technique of economic development.
His economics is neither general in its approach nor is it a theory of economic process. The economic logic behind it is born out of the needs of social and economic life of contemporary England and America. The basic concepts of Keynes' economics — propensity to consume, propensity to invest and effective demand — and the policy recommendations based upon them, possess significance only in a given context of institutional set up, social structure and cultural values. It is not immediately applicable to the economic problems of an under-developed country. Firstly, we have neither the capacity and the character in the private sector of our economy, nor the institutional set up and social outlook in our economy which would enable us to use it conveniently for the solution of our economic and social problems; and secondly the approach as well as the preconditions of that economics are unrelated to our basic needs.

Keynes did not devote any attention to the problem of long run economic growth. Classical economists concentrated their attention on the capacity side of capital accumulation but took it for granted that there was an adequate demand, via changes in it. The earlier Keynesian thinking paid attention to the problem of adequate demand but ignored the problem of capacity. Keynesian thinking was definitely an improvement over the earlier analysis but it failed to consider the long run problem of increasing productive capacity which results
from investment, Keynes had in view a society which had reached a level of development at which it faced stagnation unless something was done to stimulate demand for its products. The Keynes' analysis is more relevant to a mature and closed economy where the problem is not of economic development of the economy but is one of stabilization of the economy. "The inadequacy of Keynes doctrine does not lie in an inconsistency in the theory but in its narrow-range. Keynes is discussing the problem of unemployment in a developed economy where there is productive capacity already in existence and all that is needed is a profitable market for its potential product. He is trying to find a cure for the diseases that beset wealthy nations. His arrangement throws little direct light on the problem of a country which suffers from a lack of productive capacity or on the kind of unemployment (which Marx deals with) that arises from having too little capital to be able to offer work to all available labour. It is of no use to apply Keynes prescriptions in situation which they do not suit .....". ¹

Dr. V.K.R.V. Rau's Interpretation of the Concept of Full Employment:

The thinking that has so far been done on Keynes' theory having validity in under-developed countries seems to suggest that it stands not so much in need of modification

as of simplification. Dr. Rao made an attempt through his articles in this sphere and analysed Keynes' theory in the context of the conditions of under-developed countries and economic development. According to Dr. Rao, three conditions are involved in the concept of full employment:

(i) An appropriate volume of effective demand.

(ii) Equality of real wage with marginal disutility of labour;

(iii) Lack of response in output to any further increase in either demand or employment.

Keynes advocated three measures: deficit spending, stimulating private-investment and redistributing income for increasing effective demand to the appropriate level of full employment. Keynes' interests in the extent to which available resources were not being utilised, together with his analysis of involuntary unemployment, led him to advance policies which would expand both private and government spending for consumption and investment to maintain full employment at an appropriate level of effective demand. He made emphasis in his theory on the elastic supply of labour, inference concerning secular stagnation and diminishing investment opportunity and support of far ranging compensatory government programmes.

Keynes' theory was examined critically by all schools of thought. Some economists belonging to his school extended the growth aspect of the Keynesian system, though the approaches of these post-Keynesian economists differed from one another. Some economists are very critical about Keynes and his economics and "have been unable to find in it a single important doctrine that is both original and true."

Economists like Prof. Ohlin are of this view that certain amplifications in the theoretical set up are necessary to make the "General Theory" really "General". Though Prof. Ohlin is agreed with Keynes' theory of employment that to secure full employment, effective demand should be maintained at an appropriate level but it is not the sole cause or factor which gives rise to involuntary unemployment but there are many hindrances to full employment created by the existence of bottlenecks. According to him - "The process of expansion from a depression will usually meet bottlenecks of different sorts long before full employment is reached. A great many problems of adoption and balancing will have to be met to create the status of full employment. This can not be done by simply increasing the amount of investment, and the aggregate of purchases high enough. To the extent that the Keynesian theory has created the opposite impression it stands in need of amplification."

Keynes himself was aware of the bottlenecks which are in existence as the impediments to full employment but he assumed the volume, the quality or the organisation of factors of production to be constant in the given context and place in his economic system. Therefore it is obvious that he had no intention to deal with the increase in employment that may result from a change in his certain given elements or data in his theory of employment. Thus he was not concerned with the increase in employment that is the result of under-development of the economy or that followed economic development which implies basic changes in the factors of production.

The another aspect of the Keynes' theory of employment related to frictional unemployment about which views differ to include or to exclude in the definition of full employment, was a subject of discussion by the reputed economists. A.P. Lerner agrees with Keynes and considers frictional unemployment compatible with full employment. He distinguishes between two types of unemployment. "The unemployment which results from a general insufficiency of jobs may be called deflationary unemployment and the unemployment due to workers having the wrong skills or being located in wrong places to get jobs is called frictional unemployment." According to him distinction between these two kinds of unemployment are made because both types of unemployment require different kinds of

treatment". Deflationary unemployment is absent when there is full employment and frictional unemployment is compatible with full employment". In other words frictional unemployment is the unemployment which exists when there is full employment and is inevitable in a dynamic society.

Mrs. Robinson takes, on the other hand, precisely the opposite view according to her, frictional unemployment is not consistent with full employment. According to Mr. Robinson: "It is impossible to make a hard and fast distinction between unemployment which is due to frictions and unemployment which is due to deficiency of demand". She further says that full employment is not that stage where there is no frictional unemployment. In her own words: "It seems preferable to say that full employment in a precise sense can never be attained as long as frictions exist, rather than to use"full employment" in an unprecise sense in which it can be said to be attainable, such unemployment as remaining being vaguely attributed to frictions."¹ Lord Beveridge also considers "frictional unemployment compatible with full employment. He observes: "full employment does not mean literally no unemployment..... some frictional unemployment there will be in a progressive society however high the demand for labour."² His definition of full employment is most widely accepted one and broader than Keynes. "Full employment ......

means that the jobs are at fair wages of such a kind, and so located that the unemployed men can reasonably be expected to take them; it means by consequence, that the normal lag between losing one job and finding another will be very short."

The discussion above regarding frictional unemployment is less relevant to the present analysis but no doubt, it has a significant place in the theoretical exposition of Keynes' theory. The term is more relevant to developed advanced countries where employment is due to deficient effective demand and not due to under-development of the economy. According to Dr. Rao "Where as Keynes confined his formulation of the concept to the maximum employment that can be attained by an appropriate increase in effective demand, subsequent writers on the subject have tended to bring in - if not directly, at least, by implications - the increase in employment that can be effected by what Ohlin has called "adaption or balancing" in the economy or what Beveridge has termed "relating the demand for labour and the supply of labour quantitatively as well as qualitatively."

It is obvious now that Keynes' theory was primarily concerned with the unemployment that resulted from insufficiency of effective demand and that can be attained by an appropriate increase in effective demand. Keynes did not discuss the

unemployment that resulted from a lack of the complementary resources necessary to keep labourers at work" in his "General Theory".

Dr. Rao, after discussing the Keynes' theory of employment with all its aspects and the different opinions regarding frictional unemployment stated "that while a good deal of involuntary unemployment in a developing economy can be traced to deficiency of demand, a considerable part would remain which can not be cured by increase in effective demand and one has to agree with Mrs. Robinson that full employment in a precise sense can never be attained as long as friction exists." ¹

Dr. Rao, further made distinction between voluntary unemployment which is found in a developed advanced economy and the one which is inexistence in under-developed countries. "In a developing economy the voluntarily unemployed would be those who do not seek work because to them the marginal disutility of work is greater than the marginal utility of the real wage that will be available for work. But in an underdeveloped economy, there is another category - and one which is numerically so significant as to out-strip all the categories of unemployed discussed so far - and these are the workers who are constantly employed in the sense that their time is occupied but whose contribution to output is nil

in the sense that their ceasing to work will leave the total output unchanged." Dr. Rao included these workers in the category termed "disguised unemployment." The similarity between these two uses are only this that in both the situations persons are voluntarily unemployed but between these two situations, differences are not only fundamentally in causes that give rise to situations but also lie in the very nature of the situations. He says that disguised unemployment is perfectly consistent with the Keynesian view of full employment and constitute a most formidable problem in the economics of employment.

According to Dr. Rao, the problem of under-developed countries could not be solved by mere increases in effective demand. The repairing of insufficiency of demand is not only required but also a fundamental change in the organisation and volume of factors of production is essential which will bring about economic development. He distinguished between Keynesian concept of full employment and the employment concept of economic development: "Full employment means increasing the number of jobs to the maximum consistent with existing employment opportunities, and this is to be brought about by increasing effective demand to the limit beyond which it will result in inflation, while economic development means creating new employment opportunities and thus increasing the level of employment and this is to be brought about by increasing

the volume of the complementary resources necessary to secure the productive employment of available labour."¹ He further argues that in the two different concepts, emphasis has shifted from deficiency of demand to deficiency of complementary resources. The Keynesian concept of full employment is essentially a short period concept whereas the other is a long period concept and involves moving from one level of full employment to a higher level. Therefore, there are as many levels of full employment as there are different stages of economic development.

The emphasis of Dr. Rao on the fundamental changes in the factors of production instead of increasing effective demand to raise the level of employment "from the level of full employment appropriate to a lower stage to another appropriate to a higher stage" make it obvious that the solution of the problem of unemployment in under-developed countries require altogether different approach than visualised Keynes. His formulation of the concept of economic development in terms of full employment which means an increase not only in the volume of employment but also in its productivity, makes his thesis's central point clear that economic development is the only way for achieving and ensuring "full employment at a given level of economic development to full employment at the next level of economic development."

The other aspect of Dr. Rao's analysis that is, his attempt to reconcile Keynes' theory of full employment with that of disguised unemployment, found in under-developed countries, is quite unconvincing. His whole analysis of the subject is based on the fundamental premise that disguised unemployment prevailing in under developed countries is a category of voluntary unemployment which is one of the Keynesian type of unemployment found in advanced countries.

But two situations are fundamentally different and are not reconcilable any way because voluntary unemployment and disguised unemployment both are fundamentally distinct phenomena. In case of advanced countries wage earner is a dominant category of workers whereas this category is comparatively small in under developed countries and the major category is one of self employees or household enterprises. In advanced countries workers are unemployed because they are demanding a wage rate not equal to but higher their marginal productivity. Though employment is available in the economy on the wage rate equivalent to marginal productivity of wage labourers. The situation is entirely different in under-developed countries. In these countries employment opportunities are not corresponding to their employment seekers, even on the wage rate less than the marginal productivity of labour. Disguised unemployment is not a temporary phenomenon
but a normal feature of the economy due to low state of technical knowledge and little capital equipment within the agrarian structure. They are employed "in the sense that no difference will be made to output by their withdrawal from the occupations concerned. Thus workers unemployed in under-developed countries are not voluntarily unemployed in the Keynesian sense and conditions are not analogous to those of the full employment visualised by Keynes. According to Prof. A.K. Das Gupta "......with the existing capital equipment, even if we have "full employment" in the Keynesian sense, a large volume of unemployment will still remain in the physical sense when capital equipment is low and population large, marginal productivity comes down to the level of the marginal disutility of labour at a stage where unemployment still persists in the physical sense, though not in the involuntary sense."¹

A General Review:

It is obvious from the foregoing analysis that the type of unemployment existing in under developed countries is due mainly to insufficiency of means of production rather than deficiency of effective demand. In advanced countries where unemployment is generally in apparent form and content, the meaning of full employment is still imprecise and controversial. The difficulties in defining the term are more

in under-developed countries, where the nature of
unemployment is structural and labour market is not well
organised, than that faced in advanced countries. Difficulties
make it impossible to define full employment dynamically.
According to Lord Beveridge: "millions would remain
unemployed under full employment." 1 Attempts have been
made to apply the Keynes' theory of employment to under-
developed countries by making certain amplifications in it,
so as to suit the peculiar conditions prevailing in under-
developed countries. No doubt, the growth aspect of the
Keynesian system has been extended by Hansen, Joan Robison,
Hicks, Harrod and Donar etc. The approaches of these post
Keynesian economists differed from one another. However they
endeavoured and are still endeavouring to extend the Keynesian
system into a fairly comprehensive long period theory of out-
put and employment. The under-developed countries, prior
to the Keynesian economics and the Second World War, had
never received any concentrated attention from the leading
economic theorists. Some economists who did examine the
problems of these countries viewed them only from a restricted
view point and arrived at conclusions which could not be
applied to the solution of the problem as a whole. "The tools
and techniques of economies of developed countries, when

1. Mr. Dobb is of the view that under capitalism, full employment
is not possible due to the basic contradictions. Mrs. Robinson
says: "Unemployment is not a mere accidental blemish in a
private enterprise economy. On the contrary, it is a part
of the essential mechanism of the system and has a definite
function to fulfill." (Collected Economic Papers, p. 84.).
applied to an analysis of the problems of these countries, would lead to a number of conclusions which are bound to be unrealistic, whereas in the advanced economies, complicated models of the working of the economic system are being constructed and problems of growth are being studied in that context, no such effort has been possible in the case of under-developed countries.¹

In recent years, economists - both in advanced as well as under-developed countries concentrated their attention on the study of the problems and process of economic growth in under-developed countries. An awareness is growing amongst the Indian reputed economists to contribute something that may be useful in evolving and constructing a general theory of economic development, applicable to countries like India. The renowned western economists now focussed their attention and became interested in the theoretical study of the problems of under-development. This is "party due to their intrinsic interest in the welfare of the people of under-developed countries, but mostly due to the increased attention, paid to the problem of economic development in general."

To: maintain full employment is a general proposition in countries of all stages of development, but its achievement in under-developed countries requires some special policy measures and programmes. In these countries, on the one hand, the volume and rate of investment are inadequate, "to cross the

The chasm between the stage of preparation for "take off" and a condition of cumulative self sustained growth, and on the other hand, there is the existence of vast reserves of unutilised manpower. The problem relating to employment aspect in these countries is not of providing employment at existing or higher real wages but rather one of effectively mobilising all the available manpower.

Nurkse's Thesis:--

In the theory of economic development of under-developed countries, a new approach has been emerging which is the midway between the classical approach and the Keynesian approach over the last two decades. The harnessing of the labour resource of the under-employed, especially in agriculture or the so called "agrarian surplus" is assigned a key role in this theory.

In course of analysis of the problems of capital formation in under developed countries, Prof. Nurkse drew attention not only to the savings potential concealed in rural under employment but also proposed to mobilise the under employed for capital formation. He was the first economist of high reputation who developed this concept in some detail which is the basis upon which many distinguished economists have built their theory of economic growth.
The central idea behind his whole discussion is that under-development is the cause of under development and it is development that breeds further development. He also discussed extensively the supply and demand sides of the vicious circle of poverty and the crucial role of rate of capital formation in breaking it in under developed countries. While dealing with possible sources of capital formation which can raise the rate of genuine savings vis-a-vis supply of capital internally, Prof. Nurkse asserted that it could be increased if full utilisation of man power resources is being made in under-developed countries which has hitherto been neglected in economic discussion. The saving potential concealed in the existence of disguised unemployment has not been adequately recognised in economic discussion, in western countries. But in under-developed countries which suffered from large scale rural under employment, in the development plans and in the actual development saving potential hidden in the disguised unemployment has certainly a role.

Under-developed countries have certain advantages than that of advanced countries. They have large reserves of unutilised or under-utilised man power by utilising which it is possible to step up capital-formation, without drawing away, to any large extent resources employed in the production of consumer goods. "In one sense the countries
which have surplus labour have therefore an advantage over those countries which have not. For the latter countries can not increase their capital formation without withdrawing labour from producing consumer goods, whereas the countries which have surplus labour can increase capital formation at zero cost in other goods.¹

At the outset, it is essential to remember that disguised unemployment has been already clearly distinguished from 'seasonal' unemployment and is also different from merely low paid employment which was the original meaning.

In densely populated under-developed countries where opportunities for employment are limited due to high population pressure and also low rate of industrialization, surplus population exists in the heavily over crowded agricultural sector. Too many people subsist on agriculture. Seemingly they are employed, but their employment is not wholly productive in the sense that production does not suffer even if some of the so called employed are withdrawn. In other words, labour is the source of all wealth and capital in substance is nothing but accumulated labour. There are "large scale disguised unemployment in the sense that, even with unchanged techniques of agriculture, a large part of the population engaged in agriculture could be removed without reducing

agricultural output."¹ The ratio of labour to land and other resources is so large that the marginal productivity of labour is reduced to zero, although the average productivity remains positive. The statement that marginal productivity of labour is zero in agriculture is usually made to describe a situation in which when some labour is withdrawn from agriculture, output can still be maintained without any change in organisation or in cooperant factors. It is "a situation in which the withdrawal of a certain quantity of the factor labour to other uses will not appreciably diminish the total output of the sector from which it is withdrawn. This is as much to say that the marginal productivity of these units of the factor in their original employment is zero or very close to zero. Some observers suggest that it may even be negative which would imply that by removing some people farm output could actually be increased."² The result is that the marginal body of workers naturally consume something but produce nothing. They are employed physically but not economically. The surplus workers could, therefore, be put to more productive employment. If the removable surplus population "are employed else-where and continue to consume as much as before and not more . . . . . in the new employment channels, will be a net addition to the existing production . . . . . The present consumption of the removable surplus population constitutes

2. Ibid.
Nurkse's thesis is that "the state of disguised unemployment implied at least to some extent a disguised savings potential as well." It contains a hidden source of saving available for economic development. The saving potential is the difference between the output and the consumption of the essential man power on the land which is offset by the unproductive consumption of the surplus man power. This can be transferred into an effective saving fund by transferring the surplus man power to capital construction and utilizing the resultant food surplus to feed the transferred labour in its new occupation, provided the marginal propensity to consume of both the retained and transferred man power is constant. Thus the Nurkesian thesis is based on the assumption of removal of this surplus population. It is a mass phenomenon in over crowded peasant economies and denotes a condition of family employment. The estimates which constitute disguised unemployment in South Eastern Europe and Asia, ranged from 15 percent to 20 percent or as much as 30 percent of the total labour force work on the land. What Nurkse calls the "concealed savings potential" is the loss of output to society through the consumption of unproductive rural labour. The unproductive workers are being fed by productive labourers. The productive
labourers are therefore performing virtual savings; only this saving is abortive, being off-set by unproductive consumption of other labourers. Such unproductive consumption could be converted into actual saving by transferring the surplus labour to alternative occupations in the urban areas and feeding them with the same food (now to be transferred) which they consumed in the rural home.

The initial assumption: "that surplus labour does exists, which can be withdrawn without a fall in total farm out put" refers to the classical assertion of perfectly elastic supply of labour but whereas classical assumption pertains to the economy as a whole, Nerke's assumption related only to rural sector of the economy.

Nurke concentrated on the problems of the rural population in the densely populated peasant economies. Wage labour is the type of labour peculiar to the urban area to which the term disguised unemployment is not applied; it is applied only to the family employment in peasant communities. Therefore it is clear that his analysis is confined to the chronic and large scale under-employment in agriculture alone. Now it is obvious that Nurke's thesis postulates a dual economy, the rural sector conforming to the classical assumption of perfectly elastic supply of labour and the urban sector conforming to the neo-classical assumption of the
in elastic supply of labour.

If any of the above assumptions is false the savings potential of disguised unemployment will be reduced, though it need not be eliminated. The concept of disguised unemployment' has gone so far unchallenged. There is least doubt about its theoretical soundness. The proposition that the marginal production of surplus or useless. The proposition that the marginal production of surplus or useless people or population who contribute nothing to out put is zero or negative, is only a hypothesis and no empirical evidence has been put forward to support it. Prof. Nurkse was also fully aware of the practical difficulties involved in this hypothesis. "I have confined myself to a theoretical out line of the problem; I have no illusion about its practical difficulty."

No doubt, Prof. Nurkse recognised some of the limitations on the effective mobilisation of the saving potential of disguised unemployment and pointed out many leakages in the process, such as, higher consumption of the retained man power, costs of transporting goods to the place of work of transferred workers and increased consumption of the latter owing to higher incomes and more arduous jobs, and the natural growth in the numbers of the retained man power. He, however felt that these leakages can be plugged by securing complementary savings from outside the system. The degree of mobilisation possible will, therefore, depend on the amount
of complementary saving and the size of the leakage.\footnote{1}{John. A. Buttrick: "The Formation of Capital" in Economic Development, Principles & Patterns, pp. 185, 191.}

It is of course true that the marginal productivity in the agricultural sector is much lower than that in the industrial sector, so that a transfer of population from the former to the latter will lead to increase in total production in the economy. But can we treat such a situation as one of disguised unemployment? There are three main reasons why such a situation may not arise. First, labour may voluntarily refuse to move from the lower productivity sector to the higher productivity sector. This will be a case of involuntary under-employment and, as in the case of developed countries not of disguised unemployment. Secondly, such a situation may arise from pure ignorance on the part of those employed in the lower productivity sector, say, when the agriculturists do not keep proper cost accounting and make no comparison of relative profitability of the two sectors. This is merely another way of putting the well known fact in under developed areas, agriculture is more a way of life than a business. This case may be characterised as one of disguised unemployment. Thirdly, such a movement may be prevented by lack of opportunities of employment in the higher productivity sector, say, due to shortage of capital etc. The labour wants to move but it can not. This is the classical case of "excess population". Prof. Nurkse would of course,
emphasise this last case as that of disguised unemployment.

In an underdeveloped country with almost subnormal standards of living, it is unlikely that this saving potential concealed in disguised unemployment could be realised completely. The experience in these countries suggest that the increase in the incomes as a result of productive employment of the disguised unemployed would be spent at least to some extent on additional consumption; the newly employed and those who supported them earlier would increase their consumption. However, it is likely that in spite of some increase in consumption, a part of the increased incomes would be saved. Thus, there would certainly be some saving potential.

Others pointed out some important limitations which arise from the nature of the saving potential and its real magnitude and the additional costs of mobilising it. The real magnitude of the saving potential is much smaller than it appears to be if elements which do not constitute genuine saving are excluded from it. The existence of large scale indebtedness in agriculture, the economics of joint consumption due to common use of accommodation and household goods in joint household, the effects of price variations on production of food are the limitation which reduce the magnitude of saving potential. Thus it is a conceptual

magnitude "which could be said to exist only under the highly restrictive assumptions of constant population, constant marginal propensity to consume of the retained and transferred farm labour, abstraction from the income effects of price changes on food consumption, and from the implications of large scale agricultural indebtedness. Further more, in practice the costs of mobilising the saving potential of disguised unemployment, to the extent that it exists, would probably be greater than the magnitude of such saving." ¹

It is pointed out that the extent of disguised unemployment in terms of movable persons is very small and its potential role in economic development is much exaggerated in under-developed countries. Prof. Nurkse proposal is based on the implicit assumption that chronic under employment in macro terms can not be converted into micro terms with a considerable degree of equivalence. Obviously its translation into practice would involve a great deal of comprehensive and detailed economic planning and can not be implemented in free enterprise economy. The identification of productive and unproductive workers in agriculture is impossible in macro terms. In fact, unemployment of the magnitude the macro definition calculates does not exist in micro terms. The macro definition of chronic under employment is formal and abstract. It indicates potentialities

and not actualities that can be readily acted upon. Without significantly changing organisation and technique of production, however, a significant part of the population to day engaged in agriculture in the under-developed countries can not be released for work else where in the economy.\textsuperscript{4} The major Nurksian premise that the surplus man power can be removed without effecting the current food output seems untenable because the invisibly under employed "can not be neatly divided into those who are idle and un-productive and those who are employed and productive because available work is shared by all and the average productivity of labour is positive though the marginal productivity may be zero or even negative. Removable surplus in a strict sense is not the same thing as invisible under employment. "Invisible under-employment and the removable surplus are not identical but distinct, the removal surplus in any context is always potential and its extent is determined by the extent of change contemplated or assumed which in turn depends on the situation from outside, that the labour provided by the removal surplus is somewhat cheaper than it would be if there was no potential removable surplus." The removability of this surplus is entirely a function of institutional reorganisation; better the organisation, larger the surplus." The invisibly under-employed are made invisible by the production organisation and without some change in it, a removable surplus of

workers does not come into being at all. A removable surplus does not exist as such but has to be created by some reorganisation. It is always potential and its realisation or emergence is contingent on reorganisation. Thus the saving potential, concealed in the removable surplus is the difference between money cost and the opportunity cost of wages paid to it. In actual investigation, however, this difference turns out to be very meagre. The hope of deriving substantial contribution from this source for a capital investment, in under developed countries, is quite illusory. Thus it has become an obvious fact that a mere removal of this excess of population from land will not maintain output unless accompanied by some other measures, e.g. reorganisation changes.

Prof. Arthur Lewis Thesis:

Prof. Arthur Lewis also puts forward his thesis on the assertion that many under-developed countries conform to the classical model, in which the supply of labour is perfectly elastic at current wage rates. But the implications of his analysis are different from those of Nurkse's model for the problems of economic development. His model provides for the shift of population from the subsistence to the modern sector of the economy, although

based on a different assumption: One is a more general classical assumption of "unlimited supply of labour" both in the rural and urban sectors which is clearly the relevant assumption for the over populated under-developed economies. According to him the disguised unemployment is not only confined to the country-side but also applied to a large casual jobs sector.

In under-developed countries there exists unemployment and under-employment simultaneously and the population growth rate is quite high. Therefore, obviously, the Nurkesian scheme of the transfer of surplus rural population to the urban sector can not be effectively applied to such countries like India where the actual conditions correspond more to the Lewis's hypothesis than to that of Nurkesian hypothesis.

The Lewis's model is in accord with reality in many under-developed countries so far as unskilled labour is concerned. The Lewis argument does not require disguised unemployment. It requires three conditions: that the wage rate in the industrial sector be above the marginal productivity of labour in the rural sector by a small but fixed amount; that investment in the industrial sector be not absolutely large relative to population growth; and that the cost of training the necessary numbers of skilled workers be constant through time.

The first condition seems to be met in many countries. If the "population multiplier" operates, the second condition is automatically guaranteed. But, even if, industrial investment does not actually accelerate population growth, the second condition can be met if employment in the industrial sector is a small proportion of the total and population growth is fairly high. Thirdly, the supply of unskilled labour to the industrial sector can be treated as perfectly elastic, while in the rural sector it is already redundant in the sense that marginal productivity there is below the subsistence standard of living.

In these countries, the supply of labour actually forthcoming is in excess of the demand both in the rural and urban sectors. Therefore the recommendation of Nurksian scheme for the mobilisation of potential rural surplus man-power through urban industrialization is not according to facts and conditions of these countries. The possibility of saving potential concealed in the rural unemployment and under employment would be greater if the unproductive workers are productively employed in the rural areas itself rather than they would transferred to the urban sector. In the latter case, the increase in consumption would be larger because of the need for transporting food, higher wage rates and the necessary to have two establishments &
higher urban standard of living. The implicit assumption of the Nurksian thesis that the surplus man power in the rural sector whose productivity is at the movement zero, should be shifted to the non-agricultural sector and employed in construction activities by implication means that the door is wide open for the surplus rural labour to be absorbed in non-agricultural activities, are not valid in countries like India and against the empirical facts available on this proposition. The transfer of surplus agricultural population to the non-agricultural sector, where there is a considerable volume of working force looking for jobs, will not only involve a great strain on organisation, be wasteful and non-growth promoting but also pose the problem of ensuring speedily increased marketable surplus of food grains for a growing urban population. \(^1\)

The Nurksian scheme - a "relocation of labour in favour of capital construction" - presupposes the existence of demand for the transferred labour in the urban labour market. So long as the supply of urban labour is fairly elastic relatively to the demand for it (the demand being limited by the availability of capital) it is highly unreasonable to believe that such labour transfers can be effected. In such a situation the flushing out of the unproductive rural surplus of the disguised unemployment to urban sector will only result in the transformation of such disguised unemployment into open urban unemployment. The

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Nurkse's thesis organized transfer of the potential surplus recommendation will not only defeat its very purpose of investment potential but also aggravates the problem of unemployment into the bargain.

What follows from the above by way of economic policy is to contain and mobilize productivity in the rural surplus within the rural sector itself. The first step for utilization of surplus man power should be their diversion to local projects which require only small capital investments. Prof. Nurkse also accepted this prescription in principle. According to him the capital projects could well be "community development projects. Specially designed to make use of local labour surplus or of seasonal slack periods in the country side (page 46). He further admits that leakages from saving potential arising through transfer costs 'can be reduced by scattering the capital projects in rural areas. (page 39). In his more recent views, he was quite explicit and writes "some writers argue that since the problem is agricultural over population, the cure is to transfer labour from agriculture to industry. Even though industrialization is a normal consequence of development, this view in my opinion is superficial. The effect of over population is low productivity for which capital formation, not industrialization as such, is the basic remedy."  

It has been pointed out that any employment policy directed to provide employment fully to the disguised unemployed is likely to come in conflict with capital accumulation and economic development. Though in India the disguised unemployment appears to be neither a drag nor a saving potential; its position is just neutral. But according to Prof. Kurihara "the disguised unemployment for from being helping capital - accumulation and economic development, is more likely to hinder them by giving 'aid and comfort' to dubious projects of an employment - generating rather than a capacity - increasing nature."

The Nurkse proposal implies that the output of the formerly excess labour when productivity employed less minimum maintenance costs of that labour can be used entirely for the production of capital goods. This involves essentially a plan for forced savings out of the labour of the previously disguised unemployed. Although admitting that there may be circumstances under which it would be best to put into effect Nurkse's proposal, Prof. Leibenstein suspects that "there is no evidence to lead us to believe that the particular technique suggested by Nurkse is the best way of obtaining the forced savings, or that the amount so obtained is the optimum amount."

Thus his theory has some basic limitations and can not
be generalised as an instrument of economic development without important alterations. Prof. Nurkse analysis and approach are theoretically significant only in one respect that he tried to maintain that the case of the over populated under developed countries is some-where between the Keynesian case and the classical case; the relationship between consumption and investment - the midway between the classical approach in which capital formation required reduction in consumption and the Keynesian approach in which consumption and investment can be increased at the same time - a situation where savings is desirable and capital formation need not be accompanied by a decline in consumption. This relationship has several limitations. There is also the important consideration that it would be unrealistic, even if it were practicable to posit plans of economic development on the basis of current levels of consumption in under developed countries when these levels are recognised to be both low and even declining. Moreover it would be socially unjust to employ disguised under employed labour to work on community undertaking without payment of adequate compensation, since this labour belongs mostly to lower categories of farmers who do not have enough lands to provide them employment throughout the year. Once this labour is paid and additional income is generated, it is not possible to divert all of it to saving - a large part of it absorbed in consumption.
A General Review:

In the theory of economic development of under-developed countries which has been emerging over the last two decades, the harnessing of the labour resource of the underemployed, especially in agriculture, or the so called "agrarian surplus" is assigned a key role. There is a sharp difference of opinion between those who consider disguised unemployment or under employment to be an important and positive factor in underdeveloped countries and those who deny its mere existence. The idea of disguised unemployment was initially introduced in the theory of development of under developed countries by Prof. P.N. Rosenstein Rodan in his article, "Problems of Industrialization of Eastern & South-Eastern Europe" and was then taken over and elaborated by Ragnar Nurkse in his book, "Problems of Capital-Formation in Under developed Countries". Later on many writers on this subject have written extensively either in support of or in discard of the theme of disguised unemployment. The expounders of the supporting view claim that in densely populated countries 20 to 25 percent of the economically active population could be removed from the land without causing any reduction in output even assuming that theredoes not occur a simultaneous improvement in the methods of production. The critics of the theory of disguised unemployment are Prof. Jacob Viner, Prof. Theodore
Schultz, Prof. N. Georgescu Roegen, Prof. Gottfried Haberler. The critics even challenged the theory on the ground that, other things being equal, the transfer of even a relatively small proportion of the labour force for a capital formation would adversely affect current output, especially in agriculture.¹ Those who discard this theory say that the early enthusiasm under the cumulative impact of theoretical & empirical criticisms has largely evaporated regarding the transferring of large masses of labour to industry, even in the absence of major social changes and improvements in agriculture, without curtailing agricultural output. Prof. Benjamin Higgins has recently reversed his stand and admitted that "the early easy optimism about transferring the disguised unemployment from agriculture to industry has disappeared. It is recognised that in many underdeveloped countries static disguised unemployment in agriculture is at a very low level..... substantial numbers could not be released from agriculture without a drop in agricultural production, unless the average size of holdings is increased and some degree of mechanisation introduced."² Prof. Jacob Viner has subjected the theory to a searching criticism and has expressed "pronounced skepticism as to the existences on a large scale any where of this phenomenon if it is taken literally as usually defined, namely, the existence of zero marginal productivity of labour."³

Schultz, has declared flatly that he knew of no evidence for any poor country that would suggest that a transfer of even a small fraction, say 5 percent, of the economically active population from agriculture to industry could be made without reducing output. Prof. Gottfried Haberler\(^1\) has quoted Dr. Berdj Kenadjian, who studied the problem "Disguised Unemployment in Under-development Countries for his Ph.D. dissertation and has checked the original studies on which Prof. Rosenstein Rodan estimates of 20-25 percent of surplus labour in Eastern Europe were based as well as other statistical measures of disguised unemployment and has found them entirely inadequate and defective. According to him one of the basic mistakes of almost all statistical measures of disguised unemployment is that they make no or insufficient allowances for the extremes seasonability of agriculture. The supporters of this theory estimate it at upwards of 5 percent of the rural labour force in less developed countries.\(^2\) The observation made by an eminent economist in a recent study on India is worth quoting in this context because it assumes such surplus as self-evident. "Presently there is really no adequate measures of

India's total involuntary idleness (including both unemployment and under-employment), and I shall be pleasantly surprised if any is developed for a long time. However, this is one subject about which our need for precise knowledge is not particularly urgent. For it is obvious that, whatever its exact size, the volume of idle man power (most of it still located in the country-side) is enormous.¹

A close and critical reading of economic literature on this subject makes it obvious that the phase has been interpreted in so many ways since its coinage and the term yet has not been thoughtfully defined. It is imprecise, vague and flexible. The term originally used in the context of the depression phase of economically advanced countries; has been taken over by almost all the writers on under developed countries to describe certain features of employment situation in these countries. Now the current status of the term is a source of much confusion and failed to gain universal or even nearly universal acceptance. The conceptual and definitional problems implied with the term also have complicated the difference of opinion much. The one difficulty with the definition of the concept has been the closeness between the concept and actual measurement which give rise to mutual complication. Therefore empirical data are needed to assess which view has greater applicability in the particular employment

situation of an individual country. It has generally been admitted that disguised underemployment is much more than it is assumed to be in India.

Prof. Sovani of India previously held the view that there is hardly a truly removable surplus population in Indian agriculture and later on, after, careful study of the available literature on the subject, reconsidered his view-point and accepted in principle the existence of removable surplus population. Though he pointed out that the saving potential, concealed in the removable surplus is very meagre and the hope of deriving substantial contribution from this source for capital investment in under-developed countries is quite illusory.

It was noticed during the war that in almost in all over-populated agricultural countries, the farm output was unaffected by the diversion of labour into war time occupations. "Conditions can be easily presumed to be similar in India. The existence of farm units so small in size as to keep idle a large part of the labour available within the owning family, large numbers of casual agricultural labourers and of 'working dependents' support the conclusion that even under present technique there would not be any decline in agricultural out-put if the number of workers diverted from agriculture is not very large and if the withdrawal is thinly spread over the entire agricultural area. The fact that
the war time increase in non-agricultural occupations caused labour scarcity only in the Punjab where diversion was substantial and in the military construction zones in Bengal and Assam, where diversion was narrowly localised, confirms a conclusion of this nature.¹ Despite the 'wide acceptance of the problem of surplus man power in India which existed in an acute form, in certain specified regions which are noted for an imbalance between population and resources and also in the country as a whole even though in less acture form, the question is still in the initial stage: how this surplus man-power which expressed itself as under-employment or disguised unemployment can be utilised effectively in capital formation and economic development.

Prof. Khusro's Study in the Context of India:—

The Nurkse-Lewis thesis has been subjected to a thorough scrutiny. Apart from theoretical objections raised by several writers in respect of the transfer mechanism both of population and wage goods necessary to sustain this population transfer, the major criticism against this model is the contention that pragmatically zero marginal productivity of labour in the agricultural sector is unrealistic without reference to some organisational change. Considerable research work has been imitated towards the verification of the thesis that the excess population which is

disguisedly unemployed in the agricultural sector and which consequently has an almost zero marginal productivity could be made as the basis of industrial growth by exploiting the saving potential inherent in the disguisedly unemployed. Statistical methods developed which can measure the marginal productivity of labour. It is obvious that the assessment of the existence and magnitude of disguisedly unemployed is one of the important aspect of this problem which has to be solved before any concerted efforts can be directed towards realising the potential saving into actual saving through a process of industrialization with or without organisational change. The other aspect of the problem which is examined by Prof. Khusro in his monograph is whether the non-agricultural sector exhibits a capacity to absorb the excess labour from the agricultural sector.

Dr. Khusro points out in his study after calculating some estimates at the aggregative level that it may not be possible for the non-agricultural sector to provide employment to agricultural population till 1976 at the planned amount of investment and the growth of national income which is projected over a period from 1950-51 to 1975-76. The scope for shifting the surplus population in agriculture may be extremely limited and the employable pool in the non-agricultural sector itself may be enough to meet the requirements of this sector for quite sometime. Any attempt to encourage transfer of labour from

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agriculture to the non-agricultural sector is positively wasteful and thus the surplus will have to be employed within agriculture. It will stop, on the one hand wasteful intersectoral transfers, and on the other hand, if the surplus labour is put on labour intensive capital construction, it would ensure supply of food and other raw materials to the agricultural sector through increased productivity in the agricultural sector. There is evidence to believe, he feels that there would be net absorption after this period. "Only when demand for labour in the modern sector exceeds supply of labour .... does a net shift of workers from agricultural sector become economically justified. Otherwise the result is only an addition to the pool of unemployed in the modern sector."

The conclusion of his study is startling and the way the problem is presented, of course, opens up a new area of research and therefore calls for a critical appraisal of his pioneering attempt which is first of its kind. The main conclusion of the study "rules out the applicability of the growth models of Nurkse and Lewis in so far as they base their policy of industrialization on the exploitation of the saving potential inherent in the disguisedly unemployment associated with agriculture in the under-developed economies."