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Relevance of Mrs. Joan Robinson's Theory of Employment to The Indian Economy

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BACKGROUND

Theories of employment are closely connected with the theories of economic growth as the employment in general is supposed to be the by product of developmental efforts. Classicists gave a great deal of attention to an analysis of role played by population, capital accumulation, technology and institutional factors in the growth of capitalist economy. The neo-classicists like Joan Robinson. N. Kalder and J.E. Meade accepted the ideas of classicists and presented them in terms of growth models by using keynesian and Harrod Domar Terminology. Robinson's main contribution lies in the fact that he has integrated the classical value and distribution theory with the keynesian saving - investment theory.

Robinson's theory of employment can be extracted from her very growth model.[1] Robinson's model of economic growth is based on two main factors.

a) The rate of Labour employment is a function of rate of capital accumulation.
b) The capital formation is conditioned to the pattern of distribution of national income.

The model has been developed on following assumptions :

1) Existence of a laissezfaire closed economy.
2) Capital and labour are the only two productive factors and, therefore, there are only two classes: the workers and the entrepreneurs acquiring their rewards in terms of wage and profit respectively.
3) Required factor proportion is fixed and there is neutral technical progress.
4) Workers save nothing and on the contrary the entrepreneurs save their entire income.

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India is a country with vast supply of labour and relative scarcity of capital. Rate of capital accumulation may determine its course of future growth and there by the rate of employment generation. "Perhaps the most important circular relationships of this kind are those that afflict the accumulation of capital in economically backward countries." [2] Therefore, the study of a theory of growth emphasising on capital accumulation and analysing its various aspects may be helpful in stepping ahead towards understanding the Indian economic problems.

The aim of this paper is

a) to study the relevance of Robinson's views on the cause of unemployment to the Indian condition

b) to observe the relationship between capital formation and employment, wages and saving and so on.

c) to find out the applicability of Robinson's measures to overcome the problem of unemployment in India.

UNEMPLOYMENT IMBROGLIO :

Level of employment in a country is determined by supply of labour and demand for labour. Supply of labour is dependent upon size and growth of population whereas demand for labour is influenced by rate of capital formation.

In view of Mrs. Robinson the problem of unemployment can be efficiently tackled by increasing the rate of capital formation. It is relative scarcity of capital in comparison to growing population that leads to unemployment. To her, a country attains the Golden Age if $\frac{\Delta N}{M} = \frac{\Delta K}{K}$ (i.e. rate of population growth = rate of capital formation). Thus, the positive difference between $\frac{\Delta N}{N}$ and $\frac{\Delta K}{K}$ will determine the extent of unemployment.

As clearly shown by Appendix - 1, for the period of decade 1970-80, in India, the rate of capital formation has been greater than that of growth of population. It is clearly revealed by negative value of the deviation calculated in Appendix. -1. It means creation of Jobs does not depend on amount of capital formation or that of investment alone. Appendix - 2 shows that from 1974 to 1980 capital formation increased at the rate of 13 percent per annum where as employment by 2 percent only.

Had the capital formation been the most significant determinant of employment, number of persons unemployed should have been reduced during the recent decade. Mrs. Robinson did not foresee the possibility of capital intensive technical progress which could efficiently determine the level of employment. Capital-labour ratio which was 1882.0 in 1973 rose to 2420.9 in 1984 as has been demonstrated in Appendix - 4.

NEXUS AMONG THE VARIABLES

Mrs. Robinson opines that capital accumulation, the sole determinant of employment, is a positive function of rate of profit.

and $$P = \frac{L - W}{- Q}$$

Where

P = Rate of profit
L = Labour productivity
W = Real wage rate
Q = Capital - labour ratio.

Mrs. Robinson assumed capital-labour ratio 'Q' constant and viewed that there is an inverse relationship between profit and wages. Mrs. Robinson realised effective role of distribution pattern in favour of bourgeoisie and against probetariats in speeding up investment, capital accumulation and thereby generating employment. Thus the growth of capitalist economy hinges upon proletant's exploitation. Because, to her, it is capitalist class which saves most part of its income and invests it.

If we look at the mathematical value of karl Pearson's correlation Co-efficient between wages and saving we find it highly positive +.85 as has been shown in Appendix - 3. That means, it is not pattern of distribution but propensity to save which determines the level of saving.

APPLICABILITY OF THE MEASURES

Mrs. Robinson's views on unemployment is applicable to an industrially advanced economy following the capitalist path. Labour force is growing slowly due to slowly growing population. Industrialists are induced to accumulate capital and employ labours to earn profit. Agriculture is highly mechanised and has no scope to absorb labours. However, growing labour force can beutilised by industrial sector. The required condition for this is to maintain the rate of profit at sufficiently higher level.

Mrs. Robinson did not foresee the possibility of disguised unemployment which is mainly faced by India and such other countries. To her, the growing labour force could be absorbed in industrial sector alone. The menace of unemployment in India can not be tackled without creating jobs in countryside, though employability in agriculture has attained saturation. Lack of basic infrastructure, causing less incentive, is none of the biggest constraint for private investment and hence to creation of jobs.

India is not a country where employment opportunities are created by private entrepreneurs alone like many advanced countries. The public sector rather possesses commanding position in saving investment, capital formation and in creating employment as well. About half of the Gross Domestic capital formation and more than 70 percent of the employment in organised sector are contributed by public sector only.

In India, therefore, autonomous investment has to play pivotal role as regards the creation of social overhead capital to stimulate private investment, generation of jobs directly to relieve the pressure of unemplyment and also in arranging sufficient resource to enable investment in public enterprises. In prevaling circumstances in India. Mrs. Robinson's view that "an extension of public investment could make up for its deficiencies:[3] i.e., a supplementary role of public sector in economic growth and generating employment is not pertinent.

It is also imperative to reduce capital labour relation in various projects designed in a labour endowed country to combat the menace of unemployment. However, the persistently advancing technology and its capital intensity abstain the realisation of the ideal. Evidences reveal that public sector investment in India has been less capital intensive. Appendix - 3 shows that capital labour ration and its growth in public sector has been less and slower in compare to that of private sector.

The rate of entrepreneurial profit which is generally low in developing countries does not impel much for investment. It is speculative profit from real asset, which is main-fold greater than the former one attract investable fund in Indian economy. Profit from productive activities maued with the burden of heavy tax can not compete with the profit of unproductive speculative activities irrespective of the extent to which former is increased. It is therefore pertinent to cultivate entrepreneurial attitude and improve this quality rather than merely striving to raise the rate of profit.

In the same way, the suggestion of altering distribution pattern in favour of profit earners and against the wage earning class may not be acceptable being contrary to egalitarian goals of our planning. Moreover, a highly positive correlation between wages and saving demonstrate that rising wages do not impede the rate of saving and capital formation. The need is to develop the financial institution to mobilise the available saving.

Lastly, India needs equal emphasis on supply aspect of the labour force. Efforts to increase the demand for labour alone can never solve the problem of unemployment. Growth of population, therefor, has to be efficiently controlled to regulate the supply of labour.

FOOT NOTES

1. Joan Robinson; The Accumulation of Capital, Book II, 1956.
2. Ragner, Nurkse, Problems of Capital Formation in Underdeveloped countries, (New York, July, 1952, P.4.
3. Joan, Robinson, Introduction to theory of Employment, Mac Millian & Co., 1952, P. 98.

Table 1
RATE OF CAPITAL FORMATION AND POPULATION GROWTH.

Year	Rate of Capital Formation $\frac{\Delta K}{K}$	Rate of Population Growth $\frac{\Delta N}{N}$	$\frac{\Delta N}{N} - \frac{\Delta K}{K}$
1971	–	–	–
1972	0.06	0.02	- 0.04
1973	- 0.10	0.02	0.12
1974	0.41	0.02	- 0.39
1975	- 0.12	0.02	0.14
1976	- 0.11	0.02	0.01
1977	0.12	0.02	- 0.10
1978	0.09	0.02	- 0.07
1979	0.27	0.02	- 0.25
1980	- 0.14	0.02	0.16
TOTAL	0.60	0.18	- 0.42

SOURCE : India : A Statistical Outline, 1987, P. 18 and Statistical Abstract, India 1984 Issued by C.S.O., Ministry of Planning, Government of India, New Delhi, P.P. 33-34.

Table 2
RATE OF INCREASE IN CAPITAL FORMATION AND EMPLOYMENT.

Year	Rate of Increase in Capital Formation $\frac{\Delta K}{K}$	Rate of Increase in Employment $\frac{\Delta E}{E}$
1974	0.41	0.02
1975	0.12	0.02
1976	0.01	0.02
1977	0.12	0.02
1978	0.09	0.03
1979	0.27	0.03
1980	- 0.14	0.02

$$\text{Annual Growth} = \frac{\Sigma \frac{\Delta K}{K}}{n} = 0.13 = \frac{\Sigma \frac{\Delta E}{E}}{n} = 0.02$$

SOURCE : Computed from India : A Statistical Outline, 1987 P.P. 18 and 51.

Table 3
CORRELATION BETWEEN WAGES AND SAVING

Year	Share of wages in National Income (X)	Saving as percent of National Income (Y)
1973-74	37.5	13.6
1974-75	37.8	15.6
1975-79	39.5	16.6
1979-80	40.9	17.8
1980-81	41.3	17.7
1981-82	41.1	17.3
1882-83	41.0	16.8

N = 7

r = 0.85

SOURCE :Computed from India : A Statistical Outline, 1986.

Table 4
SECTORWISE CAPITAL LABOUR RATIO

Year	No. of people Employed Net domestic Capital Formation at 1970-71 Prices	No. of people employed in public sector Gross Domestic Capital formation in public sector at current Prices	No. of people employed in private sector Gross Domestic Capital formation in private sector at current Prices
1973	2508.5	–	–
1974	3442.5	–	–
1975	2982.7	–	–
1976	2939.6	6400.75	14576.47
1977	3237.4	5398.55	16189.86
1978	3439.6	6795.07	19050.00
1979	4221.9	8038.09	19894.44
1980	3447.5	9207.28	24223.61
1981	3810.5	11250.97	25216.22
1982	3577.4	12505.03	27372.00
1983	3510.0	13272.73	33969.33
1984	3713.6	–	–

SOURCE : Computed from India : A Statistical Outline, 1987 P.P. 18 and 51.