

Labor, Surplus: Conventional Economics. *International Encyclopedia of the Social Sciences*. Ed. William A. Darity, Jr. Vol. 4. 2nd ed. Detroit: Macmillan Reference USA, 2008. p308-309.

Macmillan
Reference USA™ Full Text: COPYRIGHT 2008 Gale

Labor, Surplus: Conventional Economics.
Page 308

Labor, Surplus: Conventional Economics

BIBLIOGRAPHY

Surplus labor models are a class of models for analyzing developing countries as dual economies with a modern capitalist sector and a traditional precapitalist sector. The precapitalist sector is viewed as having a large pool (“unlimited supplies”) of labor from which the capitalist sector may draw at constant cost. While these models are often described as finding their inspiration in the old classical economists and Karl Marx, the 1954 model of W. Arthur Lewis and its extensions are technically more neoclassical than truly classical. The Lewis model was elaborated and formalized by many others, most notably John C. H. Fei and Gustav Ranis (1964), with important theoretical contributions from Amartya Sen (1966) and Stephen Marglin (1976). Questions have been raised as to the historical relevance of the neoclassical labor surplus models (Schultz 1964; Myint 1971; Arrighi 1973; Williamson 1985).

In the Lewis model, the economy is divided into two sectors, a traditional precapitalist sector and a modern capitalist sector. Lewis emphasized that this sectoral distinction is not identical to that between manufacturing and agriculture, as there may be both traditional (craft) manufactures and capitalist agriculture. The traditional sector is characterized by a large pool of labor, available to the modern sector at a constant (subsistence) wage. The wage is exogenous and above the marginal product of labor in the traditional sector. Thus the labor supply in the modern sector is infinitely elastic. Lewis stated that the marginal product of labor in the traditional sector could be small, zero, or even negative, but whereas he also emphasized that this was not an assumption of fundamental importance, later developers and critics of the model devoted considerable attention to this assumption. For Lewis, the supply of labor is considered “unlimited” as long as the labor supply exceeds labor demand at the subsistence wage rate. The demand for labor in the modern sector is determined by the stock of capital. Under such conditions, labor shortage is never a constraint on the expansion of the modern sector. As demand is also not a constraint on expansion in the Lewis model, the modern sector hires labor out of the traditional sector, and output increases. Profits in the modern sector rise and are reinvested, fueling capital accumulation. This is how successful “development” is defined. Eventually, the marginal product of labor and the wage will become equal in both the traditional and modern sector, and dualism comes to an end. With the equalization of the wage in the two sectors, the presumption is that the wage will now be “neo-classically” (i.e., “market”) determined.

A number of criticisms have been made of the Lewis model (see, for example, Leeson 1979; Bharadwaj 1979). First, it has been argued that the model assumes that employment transfer proceeds at the same rate as capital accumulation in the modern sector, and that this will not be the case if there is labor-saving technological change in that sector. Lewis did recognize that there are two forces working in opposite directions—capital accumulation increasing employment and technical advance which may reduce employment—though he rejected the argument that the latter would outweigh the former on empirical grounds in his original article. Second, a number of critics have asserted that the situation in many developing countries is precisely the opposite of what Lewis assumed: There is significant unemployment and underemployment in urban areas and full employment in rural areas. A defense of Lewis might point out that the traditional/modern distinction is not the same as the rural/urban distinction, and that what appears as full employment in some areas is disguised unemployment; people are working, but their transfer from the traditional to the modern sector will not reduce output in the traditional sector, or will only reduce output there by the amount that the individual was consuming. Third, it has been noted that Lewis assumes away the problem of the creation of a capitalist or entrepreneurial class in developing countries, whereas in fact this is one of the main obstacles to development. Fourth, critics have argued that real and nominal wages in the modern sector do not appear to behave in the way they are pictured in the Lewis model—they both are able to rise quite rapidly—and the relation of wages and employment also differs in that rates rise even in an atmosphere of significant unemployment. Fifth, Lewis’s Page 309 assumption that the sectors are homogeneous has been criticized with

arguments developed that each sector can be quite heterogeneous, generating conflicts that affect the accumulation process. Finally, the assumption that “perfect competition” holds in the capitalist sector has been attacked both for ignoring the way in which monopoly characteristics had been inherited from the colonial era and for the neoclassical implications for the analysis of investment, allocation, and factor payments.

The Lewis model has also been criticized on historical grounds. Jeffrey Williamson (1985) argues that the early British experience does not confirm the model, while Giovanni Arrighi (1973) has attacked the argument that the model applies to southern Africa. One of the primary challenges of colonial capitalism was getting the indigenous populations to work as wage laborers or grow cash crops when they still had possession of means of production for producing the means of subsistence. In addition to forced labor and land alienation, the requirement that taxes be paid in colonial currency was one of the most important means of pressuring Africans to work on plantations and in mines or to grow cash crops.

Others challenging Lewis concerning surplus labor in developing nations included Theodore Schultz (1964) and Hla Myint (1971). Schultz studied the 1918–1919 influenza epidemic in India and the changes in output resulting from the reduction of the labor force, concluding that the surplus labor theory is false. Sen (1967) replied that the surplus labor doctrine refers to changes in the labor force resulting from the operation of economic incentives and principles, and that the influenza epidemic does not qualify. A single family member leaving the traditional sector is not the same as an entire family dying from influenza. Myint (1971) critiqued the idea that if a family member leaves a traditional farm, the other family members will increase their labor services to maintain a target level of output. Many of these critiques confuse modern/traditional with manufacturing/agriculture and, moreover, continue to ignore Lewis’s claim that the assumption of zero marginal productivity is not crucial, that the marginal product of labor can be zero, positive, or negative, and that the supply of labor is considered “unlimited” as long as the labor supply exceeds labor demand at the subsistence wage rate.

SEE ALSO *Development Economics ; Dual Economy ; Economics, Neoclassical ; Labor, Surplus: Marxist and Radical Economics ; Lewis, W. Arthur*

BIBLIOGRAPHY

Arrighi, Giovanni. 1973. Labor Supplies in Historical Perspective. In *Essays on the Political Economy of Africa*, eds. Giovanni Arrighi and John S. Saul, 180–234. New York: Monthly Review Press.

Bharadwaj, Krishna. 1979. Towards a Macroeconomic Framework for a Developing Economy: The Indian Case. *Manchester School* 47 (3): 270–302.

Fei, John C. H., and Gustav Ranis. 1964. *Development of the Labor Surplus Economy: Theory and Policy*. Homewood, IL: Irwin.

Leeson, P. F. 1979. The Lewis Model and Development Theory. *Manchester School* 47 (3): 196–210.

Lewis, W. Arthur. 1954. Economic Development with Unlimited Supplies of Labour. *Manchester School* 22 (2): 139–191.

Marglin, Stephen A. 1976. *Value and Price in the Labour-Surplus Economy*. Oxford: Clarendon.

Myint, Hla. 1971. *Economic Theory and the Underdeveloped Countries*. New York: Oxford University Press.

Schultz, Theodore W. 1964. *Transforming Traditional Agriculture*. New Haven, CT: Yale University Press.

Sen, Amartya K. 1966. Peasants and Dualism With or Without Surplus Labor. *Journal of Political Economy* 74 (5): 425–450.

Sen, Amartya K. 1967. Surplus Labour in India: A Critique of Schultz’s Statistical Test. *Economic Journal* 77 (305): 154–161.

Williamson, Jeffrey G. 1985. The Historical Content of the Classical Labor Surplus Model. *Population and Development Review* 11 (2): 171–191.

Mathew Forstater

Source Citation: "Labor, Surplus: Conventional Economics." International Encyclopedia of the Social Sciences. Ed. William A. Darity, Jr.. Vol. 4. 2nd ed. Detroit: Macmillan Reference USA, 2008. 308-309. Gale Virtual Reference Library. Gale. Public Trial Site. 9 Jan. 2008 <http://go.galegroup.com/ps/start.do?p=GVRL&u=pub_gvrl>.

Gale Document Number: GALE|CX3045301278