

DISGUISED UNEMPLOYMENT AS A SAVING POTENTIAL FOR LDCS

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ABSTRACT

A funny thing happened on the way to economic utopia. The unemployment scenario is quite austere in underdeveloped economies. With every passing day, we are heading towards a more insecure situation. In such an economy the scope of employment is limited implying a large section of working population tends to remain unemployed, either disguisedly or openly. Theories are there who view these unproductive workers as a source of savings potential. Withdrawal of workers from agricultural sector to industrial sector can augment the production for the purpose of economic development. Consideration of these physically unemployed workers can boost the capital formation in under developed countries, enlarging the scope of economic development. Economists are putting forward various speculations for their proper utilization. Whatever be the precise interpretation of this concept, there should be no doubt that development policies must give a high priority to a fuller mobilization and utilization of their most abundant factor of production, i.e.; unskilled labour.

Keywords: Disguised Unemployment, Saving Potentials, Capital Formation

I. Introduction

The unemployment scenario is quite bleak in India. With every passing day, we are heading towards a more precarious situation. A developing economy, like India, is defined by its large population and large-scale unemployment, further leading to socio-economic issues. At the core of such socio-economic issue lie several types of unemployment – structural, frictional or seasonal. However, one which is more severe and even more difficult to track is the disguised unemployment. Such unemployment cannot even be reflected in the official unemployment records.

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II. Defining 'Disguised Unemployment'

If we take the size of the labour force as given, disguised employment may be described as a situation in which the withdrawal of a certain quantity of the labour to other sectors will not appreciably diminish the total output of the sector from which it is withdrawn. In other words, the marginal productivity of these units of the labour in their marginal employment is zero or very close to zero. They are employed physically, but not economically. It is a characteristic of backward economies in the process of development that a more or less considerable part of the labour force is always ready to increase its productivity actively at existing normal wage rates, if jobs are available. In layman's words, disguised unemployment is a situation when removal of workers from one quarter to another will not affect the total amount of production in the quarter.

In academic circles, interest of disguised unemployment stems from Joan Robinson's use of the term Disguised Unemployment, which she defined as: "It is natural to describe the adoption of inferior occupations by dismissed workers as Disguised Unemployment." Hence those physical workers can be considered as surplus labour in the concerned sectors. Therefore, disguised unemployment is strongly related with the concept of surplus labour, coined by Nurkse.

III. The Contemporary View of Surplus Labour

Though existence of Disguised Unemployment in poor countries was always considered as a negative aspect in earlier era, as time passes new visions came forward from different corners of the world enlightening a new approach towards this concept. Some economists considered Disguised Unemployment as a positive opportunity for underdeveloped countries. It was R. Nurkse who first coined the concept of Surplus Labour. The concept of surplus labour is closely related to the concept of disguised unemployment.

A central element in the theories of development was the view that surplus labour or disguised unemployment existed in agriculture and that it could be tapped to facilitate development. One of the leading proponents of this view was Ragnar Nurkse, who argued that disguised unemployment represented a potential saving (Nurkse, 1953). This potential saving could be realized if the disguisedly unemployed could be transferred from agriculture to the non-agricultural sector, without an increase in their consumption and of those left behind, and without a decline in agricultural output. William Arthur Lewis later argued that

this surplus meant that industrialization could proceed drawing upon the “unlimited supply of labour” available from the agricultural sector (Lewis, 1954). This is major challenge for development policy.

IV. Measurement of Disguised Unemployment

According to Nurkse, the growth of agricultural surplus determines the growth of non-farm employment. In less developed countries (LDC's) there are unlimited supplies of labour defined as marginal product of labour (MP_L) below the subsistence level. If the MP_L in the rural sector is positive, the withdrawal of labour from the subsistence sector will reduce total output. Lewis argued that development via unlimited supplies of labour is economically feasible and relatively costless if MP_L is zero. Thus, disguised unemployment will exist when MP_L is zero.

There are three possible interpretation of the term disguised unemployment. We consider them in terms of a diagram. In the figure (Fig. No. – 1), we measure number of workers along the horizontal axis and marginal product and wage rate in the vertical axis. Let OW_S be the given subsistence wage which is represented by a horizontal straight line. A downward sloping MP_L curve is drawn, assuming diminishing returns to scale.

Firstly, let L' , in the figure, be the actual number of workers who can be employed at the subsistence wage. The gap between the number of workers available for work (i.e.; L') and the level of employment that equates the MP_L and OW_S (i.e.; L_0) is a probable measure of disguised unemployment

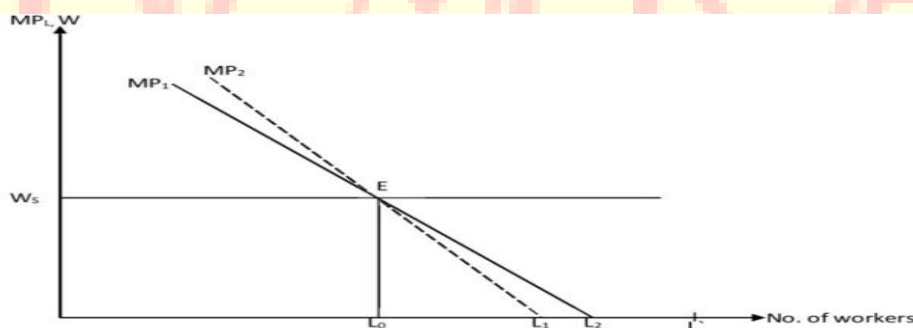


Fig. No. – 1 showing possible interpretation of Disguised Unemployment

Secondly, the gap between the actual number of workers available for employment (i.e.; L') and the level of employment at which $MP_L = 0$ (i.e.; L_2) can also considered as a measure of disguised unemployment. This surplus labour is sometimes referred as STATIC SURPLUS. Here disguised unemployment is less than that in the earlier measure (i.e.; $L' - L_2 < L' - L_0$).

Thirdly, the difference between the actual number of workers available and the level of employment at which the $MP_L = 0$ in a changing situation. In a dynamic situation disguised unemployment arises if some changes occurred in the economy that made it possible to produce the same level of output with fewer workers than in the initial situation. This type of disguised unemployment is measured by rotating the MP_L curve clockwise from MP_1 to MP_2 . This is referred as dynamic surplus and is computed by the difference between L' and L_1 .

Three tests of the Disguised Unemployment Hypothesis

There are three tests of the hypothesis of disguised unemployment, i.e., MP_L .

The first approach

The first method is to examine those situations where a large number of the agricultural labour has been withdrawn from the land, for whatever reason and to observe whether agricultural output falls or not.

The second approach

The second method of estimating the static surplus is to take the difference between the labour available and the labour required to produce the current levels of agricultural output with unchanged techniques of production. Of course, some allowance has to be made for seasonality of production. The magnitude of surplus labour will vary with local conditions.

The third approach

This approach is to test whether output elasticity with respect to labour input is significantly different from zero. This approach, based on agricultural production, indicates whether there is surplus labour or not, but fails to measure its magnitude.

V. **Disguised Unemployment as a Saving Potential**

Shortage of physical capital is a characteristic feature of an underdeveloped economy. It is a major obstacle to economic development in these countries so all efforts should be made to increase capital stock for economic development.

Saving is essential for capital formation. It must be invested to have capital goods. Saving means some sacrifices of present consumption. But some eminent development economists like Nurkse, Lewis and Dobb have argued that the surplus labour which is found in most of the LDCs can be used for capital formation without cutting down present consumption. According to them, mass disguised unemployment that characterized the over populated LDCs indicates the existence of huge surplus labour mostly in the agricultural sectors of these countries. Economists often argue that the disguised unemployment provides 'concealed savings' which can be used for capital formation and economic development in a 'costless way'.

Disguised unemployment implies the existence of some surplus labour in a sphere of work from which some labourers can be withdrawn without reducing output. In the over populated LDCs with extreme overcrowding on land, the $MP_L = 0$ over a wide range. This surplus labour can be used for construction of capital goods like roads and irrigation projects. Also this labour can be transferred to the industrial sector without affecting total agricultural output and hence the food consumption of those remaining in the agricultural sector. Thus DU can be viewed as a disguised saving potential which can be utilized for capital formation and economic development without lowering the level of consumption and any fundamental improvement in agricultural techniques. This is the Nurksian view about the possibility of utilizing surplus labour for capital formation.

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VII. Conclusion

Thus, we see that the disguised unemployment in especially in agriculture (i.e., surplus labor) can be used for capital formation in LDCs and the resources for this purpose can be obtained from the disguised unemployment itself. The existing population need not lower its level of consumption. But it is necessary that they should not raise their consumption level. Nor is it

necessary for these agricultural workers to lower their consumption who have been transferred from agriculture to other productive employment they have also to see that their level of consumption does not raise. Capital formation out of disguised unemployment is possible without lowering the level of consumption. In this context it can be stated that the rate of capital formation in the underdeveloped economies is possible by raising consumption to increase investment, as Keynes advocates.

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