



# Lewis Theory of Unlimited Supply of Labour


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# Main points of the Model

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- The Model
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- Main features of the model- a) Dual Economy b) Capitalist Surplus
- Diagrammatic Representation
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- Conclusion



# Introduction


- Propounded by Prof. W.Arthur Lewis
- Based on unlimited supply of labour
- First published- Manchester School in May 1954

## The Lewis Model

- Supply of labour based model
- Central Theme- since UDC are labour abundant and capital scarce, so this abundant labour can be used as an engine of growth in such countries.



# Assumptions

- Supply of labour is unlimited or perfectly elastic
  - The economy is dualistic in nature- exists a modern capitalist sector and a rural subsistence sector
  - The output in the subsistence sector is less than that in the capitalist sector
  - Urban wages are higher than Rural subsistence wages
  - Production in the capitalist sector are driven by profit motive and the capitalists reinvest all their profits.
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# Features of the Lewis Model

## ► Dual Economy-

- ❑ Capitalist Sector- The capitalist sector is that sector of the economy which uses reproducible capital and pays capitalists for the use thereof.
- ❑ Subsistence Sector- subsistence sector is that sector of the economy which is basically agriculture based.
- ❑ the main problem- to provide employment to the unlimited supply of labour
- ❑ Can be done- establishing industries or expanding industries at existing wage rate.
- ❑ Mobilization of labour from subsistence to capitalists sector
- ❑ Drawback- expansion of capitalists sector requires only skilled manpower
- ❑ Quasi Drawback

# Features of the Lewis Model

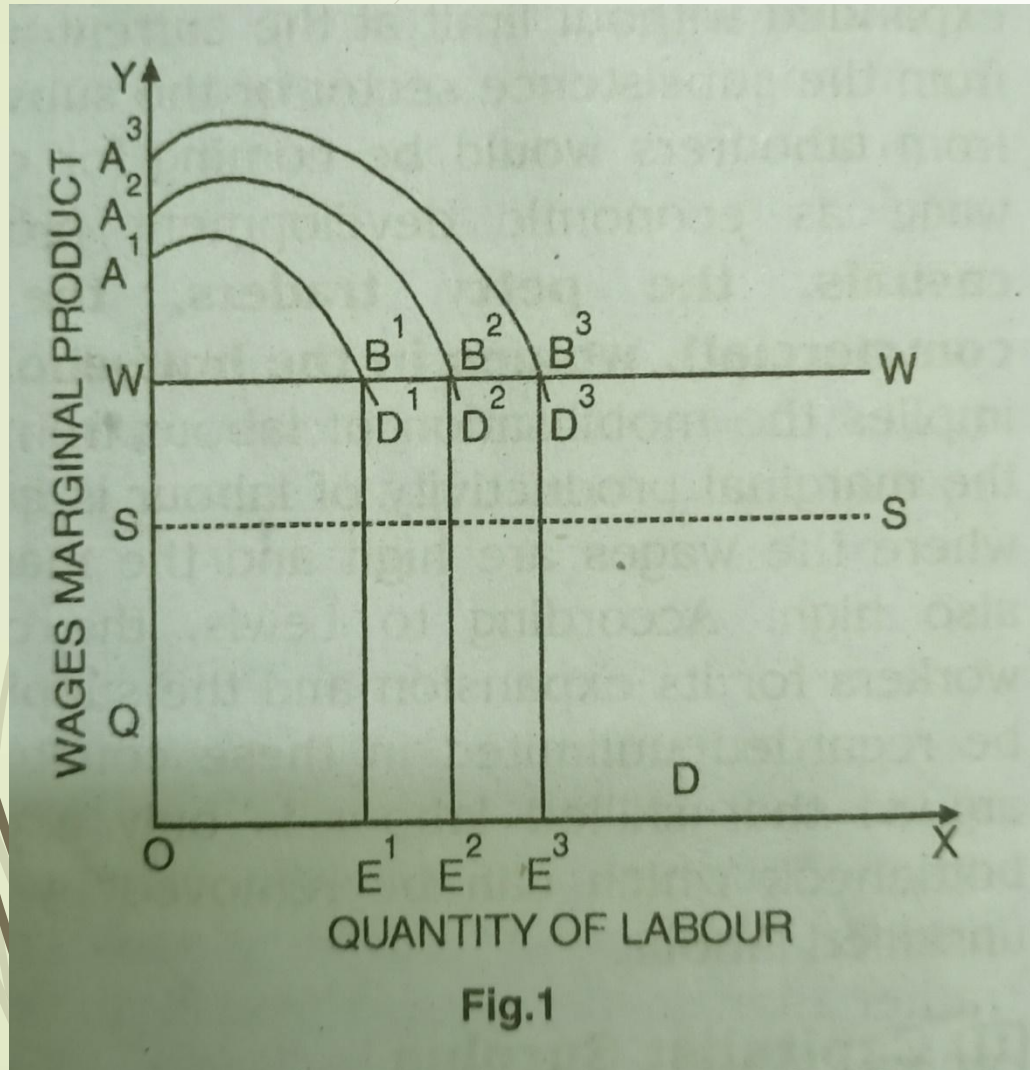
## ► Capitalist's Surplus-

- ❑ Main aim is to maximise profit
- ❑ Capitalists surplus is the difference between the Marginal productivity of labour and capitalist wage.
- ❑ Labours are drawn from the subsistence sector on account of higher wages

*Where is the profit/surplus?*

- ❑ High contribution to total output » capitalists surplus» reinvested» capital formation» new jobs more labours from the subsistence sector » capitalist surplus » reinvested » continues till the surplus labour is exhausted.
- ❑ In this way the system is brought out of underdeveloped.

# Diagrammatic Representation



- OS- subsistence wage
- OW- capitalist's wage
- WW is the perfectly elastic supply curve of labour
- OE<sup>1</sup> ---- A<sup>1</sup>D<sup>1</sup> ----- OA<sup>1</sup>B<sup>1</sup>E<sup>1</sup>
- OWB<sup>1</sup>E<sup>1</sup>-----wages paid to labours
- WA<sup>1</sup>B<sup>1</sup>-----surplus output
- Reinvested– shift in MPL curve
- Higher employment > higher surplus
- Continue till surplus labours are exhausted
- Supply curve be slope upwards from left to right > employment and wages will increase.



## End of Growth Process

- Expansion of capitalists sector will turn the terms of trade against them. They will be required to pay higher wages keeping their real income intact, thereby surplus vanishes
- Expansion of the capitalists sector will reduce the population in the subsistence sector increasing the productivity of labour in the subsistence sector thereby increasing wages and reducing surplus
- The labourers follows the capitalists way of life and agitates for higher wages thereby reducing surplus
- The subsistence sector might develop new technologies over time thereby reducing the capitalists surplus.



# Criticisms

- Unrealistic Assumptions
- One sided Theory
- Migration of only unskilled labour
- Emphasises on investment multiplier
- The theory fails if new investment results in labour saving technology
- Migration not easy

## Conclusion

- The theory still heads its head high as one of the important theories of development specially in the under developed nations where labour is abundant and capital is scarce



**THANK YOU**