The Concept of Economic Surplus

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Accepting the organic unity between economic surplus and economic development, this paper aims at pointing out the primary source of economic surplus in a densely populated underdeveloped country like India, and the way she can mobilize it. Secondary sources of economic surplus, though not unimportant, are not considered.

Underemployment: the Source

The primary source of economic surplus is embodied in what may be called disguised underemployment which is so pronounced in an underdeveloped country. The growing body of development literature either ignores this source altogether or does not work out the technique of tapping. Professor Paul A Baran (‘Political Economy of Growth’, London, 1957: pp 21-49; 164-70), for instance, has worked out the concept of the economic surplus in its three forms: actual, potential and planned. His definition of actual economic surplus as the “difference between the society's actual current output and actual current consumption” is indisputable. Potential economic surplus takes note of conspicuous consumption, unproductive workers, irrationalities of the productive organisation and unemployment caused by the deficiency of effective demand. Control of irrationalities, which even a capitalist society can attempt, during war for example, points out the existence of a potential economic surplus.

In the agricultural sector of an underdeveloped country, potential economic surplus covers largely the conspicuous consumption (p 166) of the landed gentry. Except for a broad reference to economic waste embodied in small units in agriculture, industry, trade and services (P 37), he does not show any interest in the immense waste embodied in the millions of disguised unemployes. This is like attempting to trim the branches of irrationality while leaving its trunk in tact. No doubt it is important to check the sponging away of the current surplus, but it is more important to expand the base from which the surplus itself emerges. Further, this source of potential economic surplus merges into what Baran calls planned economic surplus, since it cannot be realised without comprehensive economic planning.

Lack of Interest

One notices a similar lack of interest in this potential source of economic surplus in quite a number of other economists. For example, in his ‘Studies in Economic Development’ (London, 1957) Dr Alfred Bonne summarily dismisses “Unused Labour as Capital Substitute in Economic Development” in a small paragraph (p 213) wherein he simply states that a “change in approach has set in, in particular under the influence of Nurkske”. Professor W Arthur Lewis is more generous in treating the problem at some length. Use of surplus labour which can be particularly useful in construction of roads, etc, he says, is held up by the lack of working capital (‘The Theory of Economic Growth’, p 218), or, what has recently come to be called the wage-goods-gap. The extent of the surplus in Indian agriculture, for example, is put at an equivalent of 20 million men permanently unemployed (p 327) since 27 are employed on an average per 100 acres of cultivated land, when only 14 to 20 are needed for cultivation. But Lewis does not indicate how this surplus can be removed from agriculture. Inflation-free capital formation, he says (p 219) can be realised as a result of unpaid labour. However, it can be significant only in countries that resort to compulsory labour (p 220). The textbook on Political Economy issued by the Institute of Economics of the Academy of Sciences of the USSR (London, 1957), while dealing with the Chinese economic system, merely says that “China possesses immense human reserves” (p 801) without indicating the economic mechanism by which these human reserves can be mobilised. To the late Professor Nurkske (‘Problems of Capital Formation In Underdeveloped Countries’), goes the credit for pointing out the concealed saving potential embodied in the teeming millions. But he did not distinguish between the existence of this potential in, and its removability from agriculture. Though an almost similar thesis had been worked out by Maurice Dobb in his Delhi lectures (‘Some Aspects of Economic Development’, Delhi, 1951: pp 38-46), it has come to be associated with Nurkske. Dobb, however, (p 46) suggested institutional changes primarily to overcome the bottleneck of the marketable surplus, and not directly to remove the manpower surplus itself, thus assuming that the latter was possible without institutional changes.

Biological Balance

In his paper on “The Approach of Operational Research to Planning In India” (‘Sankhya’, December, 1955) Professor P C Mahalanobis relegates this problem to a footnote (p 10). Taking note of the movement of factory workers into the village during the peak of the agricultural season, he points out the possible existence of a “Biological balance between the size of the agricultural population and the volume of crop production”. The introduction of labour saving devices alone in his view can break up this balance. He thinks that the existence or otherwise of a manpower surplus is an open question.

The well known U N Publication, ‘Processes and Problems of Industrialization in Underdeveloped Countries’ (1955) and the ECAFE Bulletin Special Number devoted to Industrialisation (December 1958) also do not treat this problem. Dr Gyan Chand in his ‘New Economy of China’ accords (p 180) mobilisation of the ‘Enormous Labour Power of the Country’ the tenth and the last place among the sources of accumulation. N V Sovani has devoted some attention to this problem (eg, his “Underemployment, Removable Surplus and the Saving Fund”, in ‘Artha Vijnana’, March 1959, pp 17-29). Though he recognises that the removability of this surplus is a function of institutional

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reorganisation, he fails to arrive at the obvious conclusion.

So far as I am aware, Br K S Gill was the first to strongly emphasise the immense potentials embodied in manpower surplus, and the institutional reorganisation required for the purpose (in his article on “Surplus Manpower as Source of Capital” in “The Economic Weekly” Special Number, July 1958). Needless to say the incredibly simple techniques employed by the Chinese, particularly in more recent years, to achieve a high rate of accumulation, have brought the problem to the forefront and have opened up new vistas before the underdeveloped countries.

Potential and Removable Surplus

To bring about what W W Rostow has called a ‘take-off’ in India, it is important to devise institutions which will help mobilize the vast manpower surplus which exists primarily in agriculture and the rest of the rural sector. That such a surplus potentially exists, it has been seen above, is generally accepted. The important thing is, however, to know the form in which it exists and the way in which it can be tapped. Nurkse’s popular thesis is that "disguised unemployment implies to some extent a disguised saving potential as well". The latter symbolizes the difference between the output and the consumption of the essential manpower which is offset by the consumption of the surplus manpower. This can be transformed into an effective saving fund by transferring the surplus manpower to capital construction, provided the marginal propensity to consume of the retained manpower is zero. Many leakages in the process such as higher consumption of the retained manpower, costs of transporting goods to the 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 manpower (restarting the old process) have been pointed out by Nurkse and others. It is in view of these leakages that Nurkse speaks of his model as being a case of all or nothing. A study of these leakages, however important, can have relevance only if the potentially surplus manpower is itself first removed. Nurkse assumes that it can be so removed. But whether the surplus can be removed in fact depends on the nature of idleness in agriculture and other occupations. This is brought out by the distinction between visible Underemployment and Invisible Underemployment made by the Committee on Underemployment of the Ninth Conference of Labour Statisticians (International Labour Review, September 1957).

‘Visible Underemployment, which involves shorter than normal periods of work and which is characteristic of persons involuntarily working part-time; and Invisible Underemployment which is characteristic of persons whose earnings are abnormally low or whose jobs do not permit full use of their capacities or skills (sometimes called disguised underemployment) or who are employed in establishments or economic units whose productivity is abnormally low (sometimes called potential underemployment)’.

The former covers persons suffering from partial unemployment as they are not having a full working day or a full working week, but are getting normal time rates for the period they are employed. Such a situation is characteristic of advanced private enterprise countries only. Indeed, factory workers in industrial pockets in underdeveloped countries may also be involved in this situation, but it is not typical of such countries.

Invisible Underemployment

Invisible underemployment, however, is characteristic of persons who are apparently working full time; they are looking after their cattle and are moving from plot to plot to take care of the crops, etc. But the Lilliputian economic units which employ them depress the productivity aspect of their employment, as against the time aspect. At worst, according to Sovani, "they may be said to be performing the service of availability skilfully throughout the year." The major Nurksian premise that the surplus manpower can be removed without affecting the current food output seems untenable because the invisibly underemployed “cannot be neatly divided into those who are idle and unproductive 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”. (Sovani). Removable surplus, in a strict sense is not the same thing as invisible underemployment. The latter concept brings out the fact of the superfluity of manpower in agriculture. The removability of this surplus is entirely a function of institutional reorganisation; better the reorganisation, larger the surplus.

Since this invisible underemployment is most pronounced, owing to the extreme seasonality of agricultural operations, in the slack seasons, surplus manpower can be withdrawn only if the practically universal seasonal underemployment is converted into seasonal unemployment for some in their current jobs. Only then will it be possible to personally identify as to who is necessary and who is surplus. Consolidation of holdings, as suggested by Nurkse, as an institutional change, is not sufficient since it will not reduce the number of cultivation units. But the enlargement of these limits is an essential precondition for a massive withdrawal of manpower from agriculture. Simple mechanical devices can be introduced to offset the labour shortage during the peak to break period (Mahalanobis has called the biological balance between the level of production and the required manpower).

Magnitude of Surplus

This is not to argue that there is absolutely no manpower surplus which cannot be withdrawn without such reorganisation. The fact that most of the labour force for river valley projects, roads, new factories and rickshaw-pulling, etc, is drawn from the adjoining villages indicates that some removable surplus is already there which is attracted by rewards (real or illusory) available outside the village whose economy undergoes the necessary readjustment as this process proceeds. But the question is of magnitudes. The currently available outlets can exhaust the surplus, removable under present conditions, but they certainly cannot solve the problem of invisible underemployment which has first to be converted into a larger removable surplus to step up the pace of development. It must be remembered that the manpower surplus in the present context is different from the Industrial Reserve Army of Marx. The latter consists of uprooted workers and can be occasionally drawn upon without any institu-
tional reorganisation. This is not true of the manpower surplus in a densely populated underdeveloped country. Further, as against the current withdrawals of rural population, there is the movement into the countryside during the peak seasons and the natural growth of the rural population. The current rate of withdrawal, moreover, can promise only an extremely tardy pace of development.

The Institutions

It has been argued above that the enlargement of the cultivation units is an essential precondition for converting invisible underemployment into removable surplus. It can be accomplished in the contemporary Indian environment only by cooperativising agriculture. The British model, apart from its political repercussions, can ensure only an extremely slow rate of growth. But cooperativisation cannot succeed in a vacuum. An integrated approach towards the land question is a condition precedent for its success. Such an approach will involve:

(a) elimination of the intermediaries to establish parity between the zamindari and ryotwari areas (this is exactly what the Zamindar Abolition Acts in various States have done);
(b) consolidation of holdings to make a rational solution possible;
(c) a census of land holdings to enable a true picture to emerge;
(d) strict implementation of ceilings and floors and/or a strict definition of personal cultivation—to cover only direct participation in major agricultural operations with the help of family labour only, except in the case of disabled persons, minors, widows, and army other ranks; and,
(e) step by step cooperativisation.

One cannot work out all the details in a brief paper. What is important is to note that only an integrated and comprehensive approach to the land question can enable the cooperatives to succeed. The essential base for their success is a reduction in the current concentration of land ownership. Roughly, of all the land owning households in India in 1953-54, 5 per cent at the top owned 34.2 per cent of the total area, as against 0.2 per cent by 5 per cent at the bottom; 10 per cent at the top owned 48.8 per cent as against 0.4 per cent by 10 pet cent at the bottom, and 25 per cent at the top owned 72.5 per cent as against 2.3 per cent by 25 per cent at the bottom (Mahalanobis: "Science and National Planning"—Anniversary Address at the National Institute of Sciences of India, January 58). Such a concentration vitiates all attempts at cooperativisation, "Both these programmes, that of land reform and of cooperative development, are today largely paper programmes. It is indeed possible that they may be seriously whittled down even before they are launched" (D R Gadgil "Gramdan—Implications and Possibilities" in the Indian Journal of Agricultural Economics—October-December 1957, p 2).

Given the need for cooperatives it is important that proper steps be taken towards their success. But the cooperatives must be genuine if they are to unleash productive enthusiasm and release the manpower surplus. Physical participation in agricultural operations should be a necessary condition for membership.

It should be further noted that service cooperatives which are being stressed so much these days do not release the manpower surplus. Still, in so far as they promote a cooperative atmosphere and encourage more intensive cultivation, they are welcome. But they must grow into producers' cooperatives to make the manpower surplus available for capital formation. Such a programme will also make increased food supplies possible. In fact much work needs to be done in such fields as soil conservation, minor irrigation works, and afforestation, etc. The growing menace of soil erosion and water logging is at present not being effectively countered for want of a driving social force. Cooperativisation will permit people to work on such activities during the slack seasons and go back to the fields during busy seasons. Capital formation within agriculture will thus take place in a self-financing way and without any leakages. This is contingent upon rationalisation of agrarian relations. Since cooperativisation simultaneously results in more intensive cultivation and a reduction in the number of operative units, creation and mobilization of the economic surplus can proceed together.

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