Two of my assumptions which
Shri Sastry questions (again reversing the order) are (a) that lower income groups have hardly any share in property income and (b) that there is 'full employment' in the economy in the sense of absence of open unemployment. The first is crucial to my thesis that lower income groups have in the agricultural sector where the property income. That the aggregate wage share is a function, among other things, of the investment pattern is completely independent of the assumption of full employment. Even in the special case of a uniform capital coefficient and wage rate for all sectors, the investment pattern would still retain its influence on the wage share through its effect on employment. All I wanted to show was that even with the assumption of full employment (which is made in the Kaldor version of the Keynesian or widow's cruse theory of distribution), the influence of the investment pattern is eliminated only if there are no intersectoral differences in respect of both capital coefficient and wage rate.

Supposing, however, the assumption were necessary. Shri Sastry has a quarrel with me because I have squared it with the existence of disguised unemployment only ignoring in effect the open unemployment in the urban and to some extent in the rural sector. In my paper I am visualising an over-populated underdeveloped country launching on the path of development with a twin objective of rapid development and greater equality in income distribution and not India in 1962 in terms of which Shri Sastry argues. Let us, however, think in terms of India.

On the Report, a little less than half the rural households have either no land or own less than one acre (23.09 per cent own no land and about 25 per cent own less than one acre) and their aggregate share comes to only 1.37 per cent of the total land owned by the rural households.

Full Employment Assumption

Now for the assumption of full employment. First of all, a closer reading of the section II (2) of my paper would make it clear that the assumption is not necessary for my thesis. That the aggregate wage share is a function, among other things, of the investment pattern is completely independent of the assumption of full employment. Even in the special case of a uniform capital coefficient and wage rate for all sectors, the investment pattern would still retain its influence on the wage share through its effect on employment. All I wanted to show was that even with the assumption of full employment (which is made in the Kaldor version of the Keynesian or widow's cruse theory of distribution), the influence of the investment pattern is eliminated only if there are no intersectoral differences in respect of both capital coefficient and wage rate.

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Nobody would deny that the Indian economy has suffered a significant deterioration in respect of unemployment since the middle of the First Plan period and that the problem is likely to assume serious proportions with the high rate of population growth that the country is now experiencing. Yet one of the reasons why the unemployment in the urban sector attracts attention is that about four-fifths of the unemployed are literate of whom a third are estimated to be educated upto the school leaving stage and beyond. It is natural that the so called "educated unemployed" seeking "white collar jobs" should attract greater attention than the underemployed who are, however, many times greater in number. Using provisional 1961 Census figures and the findings of the NSS Report on Employment and Unemployment (Ninth Round : Preliminary, May-November 1955), the estimated number of the unemployed comes to about 1.55 million in the urban areas and 1.04 million in the rural areas. On the other hand about 15.72 million in the rural areas and 1.87 million in the urban areas are severely underemployed (working 4 hours or less per day and available for additional work) and about 10.57 million in the rural areas and 1.89 million in the urban areas are moderately underemployed (working for 4 to 8 hours per day and available for additional work). Will Shri Sastry deny that structural underemployment rather than open unemployment is the crux of the problem? That is why I had to square my assumption of 'full employment with the former.

Measurement of Capital and Output

If Shri Sastry would still question both my assumptions for not being "completely" realistic thus making the "thesis which they have to support, in effect, unreal", then all I would say is that strict descriptive faithfulness is an unreasonable demand to make of any conceptualisation. The relevant question to ask about the assumptions of a theory is not whether they are descriptively real, for they never are, but whether they are sufficiently good approximations for the purpose in hand. Judged by this criterion, I submit that both my assumptions hardly need to be questioned although the second is, of course not necessary for my thesis.

Let me now deal with a more serious charge which Shri Sastry
levels against me in regard to methodology: my use of capital output and capital-labour ratios in support of my thesis. Shri Sastry seems to carry the impression that my paper is some sort of empirical work. All that I have done is merely to suggest a hypothesis. I do not at all claim to have empirically tested it. The factual information I have presented is too scanty to support my conclusions so that I have relegated it to footnotes. I am fully conscious that what I have offered is, in effect, a very crude unfinished product which needs a lot of further processing. My cautious presentation which Shri Sastry so kindly concedes is essentially prompted by this awareness.

Shri Sastry's criticism that I have not even mentioned the basic tangles about capital theory that now engage the attention of experts in this singularly intractable branch of economic theory is rather unfair. I was not writing a treatise in which discussion about fundamental questions is either necessary or possible. If one does not, every time one uses figures of capital, output or their relationship, discuss the basic difficulties about measurement of capital and output, it is not that one is not aware of them.

A theorist building a model gets round the difficulty of measuring capital by making simplifying assumptions: capital in the form of a large number of identical meccano sets, machines which are freely transmutable and eternal etc. Any one doing the actual job of measurement is denied this advantage. The data are available in a particular form: book value of capital assets rather than replacement value, actual output rather than capacity output, depreciation allowances that do not provide an accurate measure of the life of capital assets etc. If capital-output or capital-labour ratios are derived for the purpose of projection or planning, the fact that the available data do not correspond to the relevant economic concepts makes the ratios of dubious value. In my paper the ratios do not nerve such a purpose. Nor have I offered the data as a time series for the purposes of making comparison over a period or explaining the changes in the wage share. I have merely presented some figures to show that generally capital goods industries seem to have a lower wage share than consumption goods industries and put alongside data on some related variables like average wage, capital intensity and capital coefficient.

Yet I have not arbitrarily chosen the figures for capital and output in working out the various ratios although I have not fully spelled out the reasons for my choice and I plead guilty to this charge. Of course, it is not that Shri Sastry wants to suggest a specific concept of capital and/or output as more suitable for my purpose: he merely says that there are a number of alternative concepts.

Out of the various concepts of capital and output why do I choose total capital and net value added respectively? Net value added is an income concept, and represents income, whether actually paid, disbursed or ploughed back, which accrues to factors of production. My paper being concerned with income distribution and the sectoral counterpart of the share of wages in national income being the share of wages in the net value added, the latter seems appropriate also for the purpose of capital-output ratio.

Why Total Capital?

Why do I choose total rather than fixed capital? The reason I have offered seems most unconvincing to Shri Sastry who cites "sound economic reasons" which are usually offered for using only fixed capital. But my purpose is not to seek a technological relationship between capital and output. My thesis revolves round the effect on income distribution of the pattern of investment i.e. of the allocation of a given quantum of investible resources amongst different sectors. The investible resources allocated to a particular sector cannot be used wholly for fixed capital since no output can be produced without some working capital.1 The theoretical models which emphasise the pattern of investment also require, therefore, some assumption about working capital. For instance, 1 Strictly I should have excluded from working capital finished products in stock, rash in hand and at the banks etc which do not directly hear any relationship to output.