Lewis’s Model for Economic Development

Prof. W.A. Lewis has presented a theory of economic development with unlimited supplies of labour.

The theory was first of all published in the form of an article in the Manchester School in May 1954. Prof. Lewis has tried to revive the classical model and had firmly stressed that the classical assumption of unlimited supply of labour is more relevant under conditions prevailing in majority of UDC.

Prof. Lewis has studied the process of economic development in the dual or two sector economy with special reference to UDC.

The marginal productivity of labour is negligible, zero or negative. These countries have large population along with unlimited supply of labour. The surplus population exists not only in agricultural sector but also found among petty traders, causal workers and domestic servants.

Surplus labour is found even in those sectors where people work for wages. For example, let us suppose, five workers are needed to cultivate one hectare of land. If stead, ten workers are working, then five are surplus, thus are unemployed. Their marginal productivity will be zero. By gainfully utilising this surplus labour, the rate of capital formation can be accelerated for economic development.

End of Growth Process:
Lewis model shows that if unlimited labour is available at constant real wage, the capitalist surplus will rise continuously and annual investment will be in rising proportion of national income. But this process of economic growth cannot go forever. It comes to an end when there is no surplus labour.

According to Lewis, the growth process comes to an end due to following reasons:

(i) The capitalist sector expands so rapidly that it reduces absolutely the population in subsistence sector. The average productivity rises because there are few mouths to share the product and after sometime, the capitalist wage begins to rise which lowers the capitalist surplus. It reduces the capital formation and reserves the expansionary process.

(ii) The increase in the size of capitalist sector relative to subsistence sector may turn the terms of trade against the capitalist sector and this may force the capitalist to pay workers a higher percentage of their product in order to keep their real income constant.

(iii) The subsistence sector adopts new techniques of production real wages would rise in the capitalist sector and so reduce the capitalist surplus.

(iv) The workers in the capitalist sector imitate the capitalist way of living and agitate for higher wages and if successful in getting their wages raised the capitalist surplus and rate of capital formation will be reduced.

Open Economy:

If growth is badly affected by any of these factors, capital formation can be encouraged by continuing mass immigration. It can also be done by exporting capital to those countries which have surplus labour at subsistence wage.

Lewis has himself ruled out these two possibilities:

(a) Mass immigration of unskilled labour is not possible because other countries with higher wages do not allow it.

(b) Export of capital means the excess of imports over exports. It will lead to adverse balance of payments. If the cost of imported goods is high then money wages cannot be reduced. The adverse balance of payments can be controlled through strict exchange control.