

AMOGHVARTA

ISSN : 2583-3189



Keynesian Employment Theory and Developing Economies

Dr. Sudhir Kumar,
Assistant Professor,
Department of Economics
D.C.College, Hajipur
B.R.A. Bihar University,
Muzaffarpur, Bihar, India

ABSTRACT

Classical employment theory and Keynesian employment theories have failed to remove the unemployment problem because both are one sided theory of employment, one is supply sided and second demand sided theory of employment. According to employment classical theory, we should increase supply to increase employment and income. Keynesian Employment Theory is dependent on demand. According to J.M. Keynes, the effective demand is main factor for determination of employment and income. We should increase the demand for employment and income. J.M. Keynes assumed that supply is constant, he ignored the supply in determination of employment and income, because there was great depression in the world, there was a problem of lack of demand. So J.M. Keynes has given more importance to demand.

We need an appropriate theory for removal of unemployment and increase in employment and income level and that theory will operate in all conditions (inflation and deflation) and solve the problems of unemployment. We need a theory that will be dependent on both factors demand and supply. So, we should consider on supply & demand.

Keywords

Laissez faire police, Monetary policy, Inflation, Full Employment, Unemployment, Average Demand & Supply.

There are ended police state and established welfare state in the whole world, so government's expenditure rapid increased and the laissez faire policy of classical economists has failed. There are very important roles of the government in determining employment levels and income levels. Government is increasing employment and income level through increasing public expenditure. Government has launched many programs and plans for increase in employment and income, such as Jabahar Rojgar Yojna, Rojgar Ashvasan Yojna, MANREGA, etc for work for labour and to create income. India's public expenditure was 160 crore rupees in 1951-57, that is increased 3750978 crore rupees in 2007-12. But there have not been sufficient increases in employment and income. The 1.6% employment growth rate was in primary sector in 1983-94, that is decreased to -4.34% in 1994-2000. The 2.90% employment growth rate was the secondary sector in 1983-94, that is increased to 3.14% in 1994-2000. The 3.53% employment growth rate was the tertiary sector in 1983-94, that is decreased to 2.42% in 1994-2000 and total employment growth rate was 2.04% in 1983-94 that is decreased to 0.98% in 1994-2000. So, we can say one side increased in public expenditure and the other side decreased in employment and income level and problems of employment are present in the Indian economy.

Unemployment growth rate was 3.2% in 1961, that is increased to 9.4% in 2011. Rural unemployment 7.2%, urban unemployment 7.7%, secondary educated rural unemployment 12.5%, urban unemployment 18.3% and total unemployment 14.8% were in 1999-2000 in India. The same problems of unemployment in Bangladesh. 7.3% unemployment rate was in 2010 in Bangladesh that is increased to 14.5% in 2012.

We can say, the alternative employment theory, classical and Keynesian employment theory have failed to remove the unemployment problem in India and other developing countries and other side populations of India's is rising rapidly.

Classical employment theory and Keynesian employment theory have failed to remove the unemployment problem because both are one sided theory of employment, one is supply sided and second demand sided theory of employment. According to employment classical theory, we should increase supply to increase employment and income.

By the J.B. Say, "Supply creates its own demand." But it is wrong, because only supply cannot determine the employment and income level. Supply and demand are determination factors for employment and income level in the economy.

Keynesian Employment Theory is dependent on demand. According to J.M. Keynes, the effective demand is main factor for determination of employment and income. We should increase the demand for employment and income. J.M. Keynes assumed that supply is constant, he ignored the supply in determination of employment and income, because there was great depression in the world, there was a problem of lack of demand. So J.M. Keynes has given more importance to demand. According to Shumpeter, "Keynesian economics is the economics of depression." In current time, there are no problems of lack of demand, problems of lack supply in India. So, Keynesian Employment Theory is not appropriate for removal of unemployment in current time. We need an appropriate theory for removal of unemployment and increase in employment and income level and that theory will operate in all conditions (inflation and deflation) and solve the problems of unemployment. We need a theory that will be dependent on both factors demand and supply. So, we should consider supply & demand. We need an increase the both average demand & supply for balanced growth in the economy, if increase in supply only then problems of over production will create and will increase in demand only then problems of inflation will create in the economy. So, should increase in both average demand & supply for balance growth in employment and income level in the economy.

We will discuss here a theory of employment that will be determined by both demand side and supply side.

1 **Average Demand**

Average Demand means sum of total demand of primary & secondary sector, tertiary sector and international sector. We should improve the demand of agriculture's products, industrial products, service sector's products and global demand of domestic products.

There are four sectors of open Economy- primary & secondary sector, tertiary sector and international sector.

Increase in demand of primary sector

Meaning of increase in demand of the primary sectors are increase the demand of agricultural product and its related sector's products. If there is increased demand for the primary sector then there will increase in growth primary sector & will increase share in national income.

We should increase of farmer's income and standard of living, develop agriculture occupations etc. There following measures for increase in demand of primary sector:

- (i) Enhance of quality of agriculture's products.
- (ii) Scientific farming.
- (iii) Decrease in costs of production.
- (iv) Decrease in price of agriculture's products.
- (v) Development of small scale industries.
- (vi) Development of agriculture based industries.
- (vii) Provide the credit facilities in rural areas.
- (viii) Produce the commercial products.

Increase in demand of secondary sector

The meaning of increase in demand of the secondary sector is the increase in demand of industrial products. If improve in demand for the secondary sectors then it will be a developed secondary sector and will increase share in national income. There are following measures for increase in demand of secondary sector:

- (i) Enhance the quality of industrial products.
- (ii) Decrease in the price.
- (iii) More use of technology at agriculture sector.
- (iv) Increase in industrial people's income and standard of living.
- (v) Decrease in the costs of production.

Increase in demand of tertiary sector

There should be an increase at demand for services then service will be developed. There are following measures for increase in the demand of tertiary sector:

- (i) Enhance the quality of services.
- (ii) Decrease the price for services.
- (iii) Developed the technical services.
- (iv) Increase the opportunity of jobs.
- (v) Expand the service sector.

Increase in demand of international sector

There should be an increase at demand of domestic products in global markets. There are following measures for increase in demand of international sector:

- (i) Enhance the export quality of goods.
- (ii) Decrease the price for exported goods.
- (iii) Export the manufactured goods.
- (iv) Export the elastic goods.

There will be increased average Demand through increasing the whole demand of the economy and will increase in profits and investment and increase in income through multiplier effects.

$$AD = D_p + D_s + D_t + D_i$$

Where:

AD = average Demand.

D_p = demand of primary sector.

Ds = demand of secondary sector.

Dt = demand of tertiary sector.

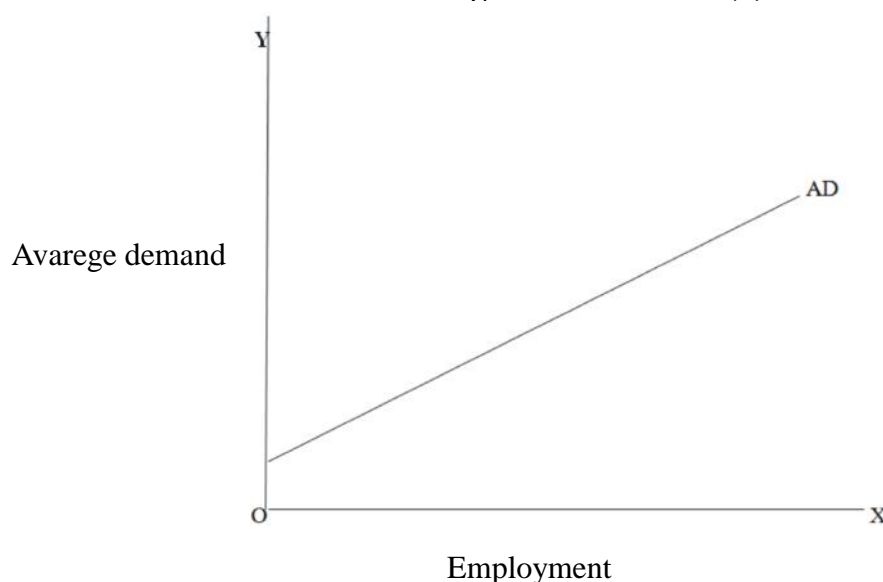
Di = demand of international sector.

Avarege Demand table : 1

| Dp | Ds | Dt | Di | AD | Employment (In crore) |
|----|-----|-----|-----|-----|-----------------------|
| 05 | 040 | 080 | 120 | 245 | 20 |
| 10 | 060 | 105 | 170 | 345 | 30 |
| 15 | 080 | 130 | 220 | 445 | 40 |
| 20 | 100 | 155 | 270 | 545 | 50 |
| 25 | 120 | 180 | 320 | 645 | 60 |

In the table there is an increase at demand of all sectors and avarege Demand and employment level is also increasing but agriculture sector's demand is less than other sectors demand because law of diminishing return operates in the agriculture sector. Employment level is also increasing according to the increase in avarege Demand.

Avarege Demand curve- (1)



2 Avarege supply

Avarege supply means sum of total supply of primary & secondary sector, tertiary sector and international sector. We should improve the supply for agriculture and its related sector, supply of industrial sectors, supply of the service sector and supply in global markets for increase in avarege supply.

Increase in supply of primary sector

Increase in supply in primary sector means increase in supply of products of the primary sector. We should develop the agriculture sector. There are following measures of increase in supply of primary sector:

1. Scientific farming.
2. Use of hybrid seeds.
3. Proper irrigation system.
4. Chemical fertilizer.

5. Use of machines and technique.
6. Proper agriculture credit facilities.
7. Proper marketing facilities.
8. Proper transportation and electricity facilities.
9. Priority for commercial cash crops.
10. Proper education and training facilities for farmer.
11. Insurance for agricultural products.
12. Provide the secondary occupation for farmer.
13. Developed the agro-industry.
14. Developed the fishing work.
15. Increase in production of forest.
16. Use of multi crops system.
17. Use the rotation system of crops.
18. Revolution in all crops.
19. Provide the proper minimum support price for farmers.
20. Developed the small scale industries.
21. Provide the subsidiaries for farmers.

Increase in supply of secondary sector

It is called the industrial sector. Increase in supply of secondary sector means that increase in supply of industrial products and increase in contribution to the national income. There are following measures for increase in supply of secondary sector:

1. Development of large scale industries.
2. Provide the proper supply of raw materials.
3. Sufficient capital facilities.
4. Provide the modern technology and machines.
5. Skilled and trained labour facilities.
6. Proper electricity facilities.
7. Developed transport facilities.
8. Proper water supply facilities.
9. Proper marketing facilities.
10. Provide the protection from multinational companies.
11. Adopt the Globalization.

Increase in supply of tertiary sector

There should be an increase in supply of providing services through people. There are following measures for increase in supply of tertiary sector:

1. Implementation of modern and commercial education.
2. Adopt the chief and best educational policy.
3. Provide the free education for poor.
4. Adopt the modern technique in education.
5. Motivation to research work.

6. Department of health facilities.
7. Provide the proper security facilities.
8. Economic subsidiaries provide by government.
9. Enhance the service sector.

Increase in supply of international sector

Increase in supply of the international sector means increase in supply of domestic products in global markets. There are following measures for increase in supply of international sector:

1. Motivation to exports.
2. Less taxation on exported goods and services.
3. Taxation on exported goods and services.
4. Provide the proper protection from international competition.
5. Increase in export of elastic goods and services.
6. Less export raw materials.
7. More and more export manufacturers' products.

We can say the improve avarege supply through increasing supply of all sectors and income and employment level will also increase.

$$AS = Sp + Ss + St + Si$$

Where:

AS = Avarege supply

Sp = Supply of primary sector

Ss = Supply of secondary sector

St = Supply of tertiary sector

Si = Supply of international sector

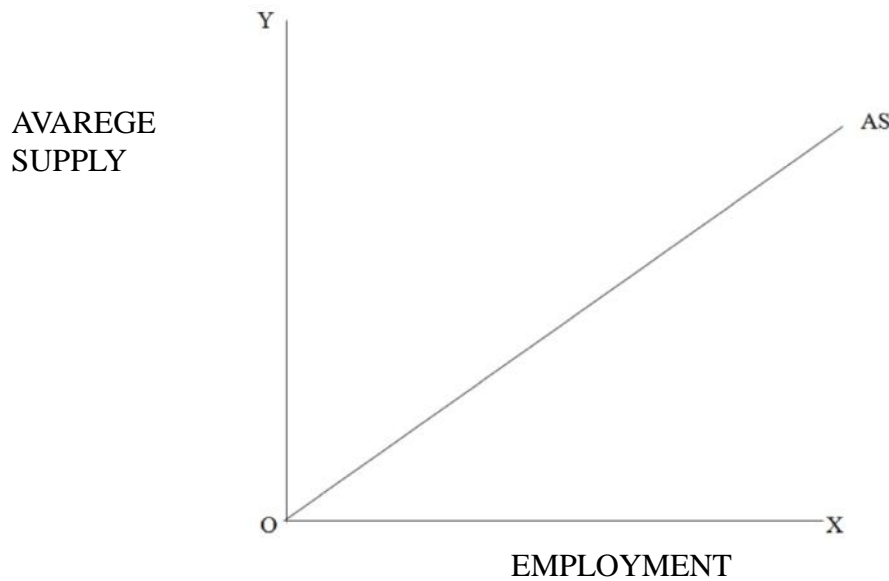
Table of avarege supply: 2

| Sp (in crore) | Ss (in crore) | St (in crore) | Si (in crore) | AS (in crore) | Employment (in crore) |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|
| 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 38 | 75 | 110 | 226 | 20 |
| 8 | 58 | 100 | 160 | 326 | 30 |
| 13 | 78 | 125 | 210 | 426 | 40 |
| 18 | 98 | 150 | 260 | 526 | 50 |
| 23 | 118 | 175 | 310 | 626 | 60 |

In the table, when avarege supply is zero then employment level is also zero because economic activities are zero. Further improve avarege supply then employment level also increase, 20 crore employment level on 226 crore avarege supply, improve avarege supply from 226 crore to 326 crore then employment level also increase from 20 crore to 30 crore. It's prose to be continued.

Avarege supply is the sum of supply of all sectors. Increase in supply of primary sector but less than other sectors because the diminishing returns operate in primary sector.

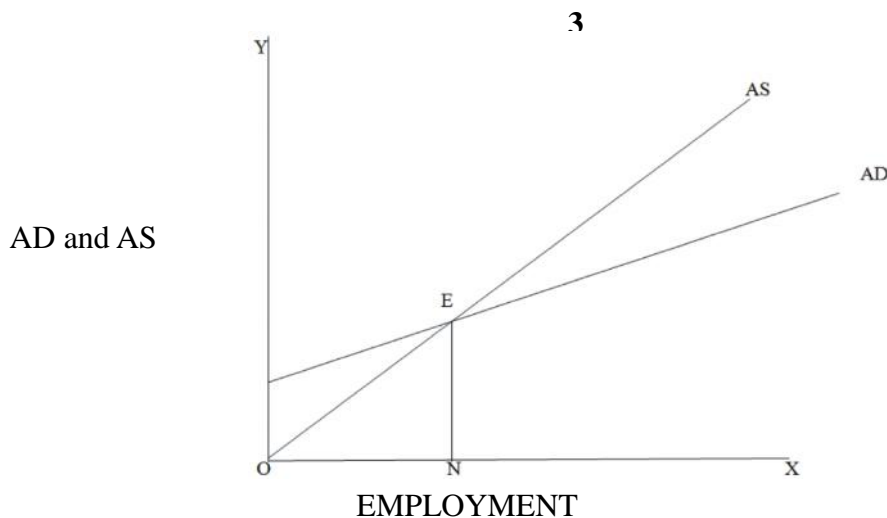
Avarege Supply : 2



In the diagram AS is avarege supply curve. It become from origin point. Its represent the zero employment level on the zero amount of avarege supply. If improve avarege supply then employment level is also increase.

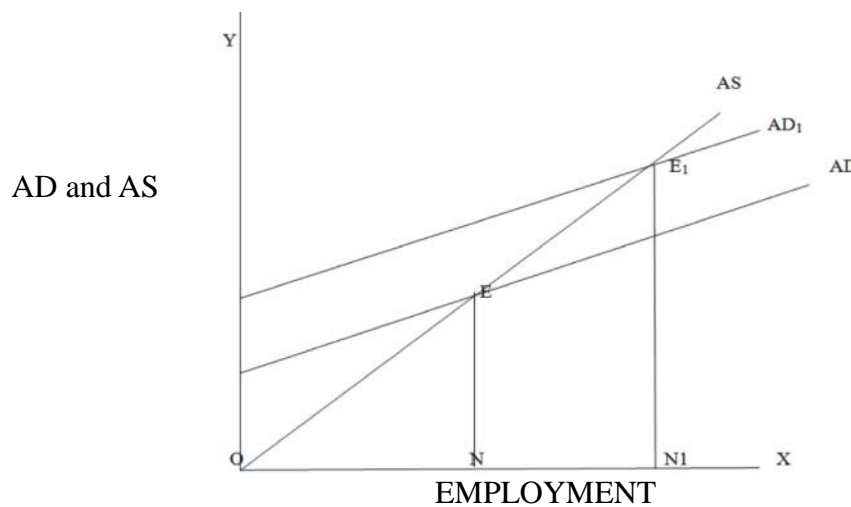
Equilibrium Employment level

Equilibrium point is that point where average demand & supply are equal.



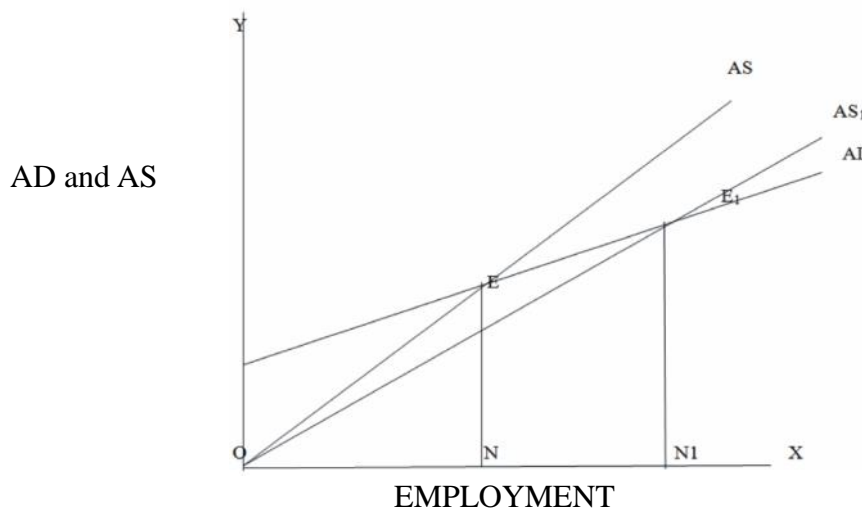
In the diagram E point is equilibrium point where average demand & supply are equal because AS and AD curves cut to each. Where ON is equilibrium employment level.

Increase in average demand (for depression) : 4



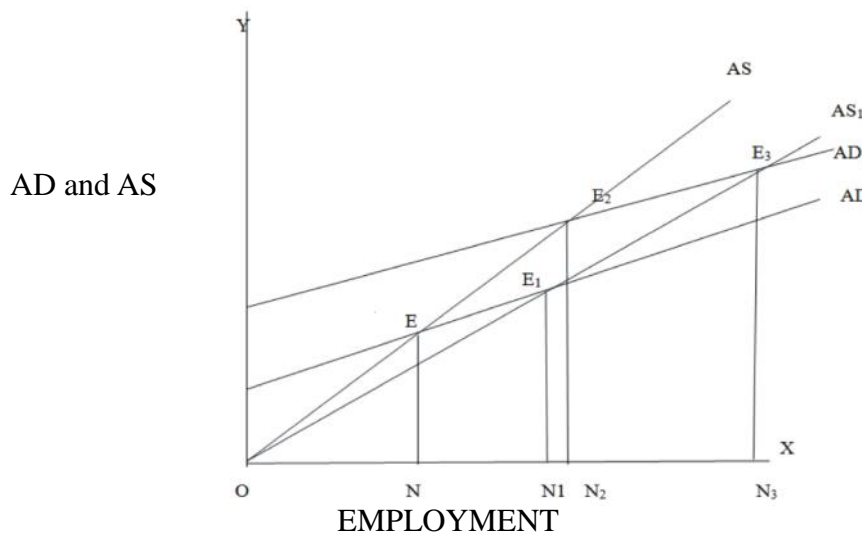
In the diagram E point is starting equilibrium point where ON is equilibrium employment level. Now AD demand curve shift from AD to AD_1 then equilibrium point also shift from point E to point E_1 and employment level increase from ON to ON_1 . Government should take a policy increase in employment through increase in demand when depression the economy. If over production or depression is in the economy then government should increase in average demand. It will be remove the over production and depression and increase in employment level.

Improve average supply (for inflation) : 5



In the diagram E point is starting equilibrium point where average demand & supply are equal, ON is equilibrium employment level. If average supply increase in the economy then average supply curve AS shift from AS to AS_1 and equilibrium point also shift from point E to E_1 and employment level increase from ON to ON_1 . If inflation in economy then government should take policy to increase in average demand then its remove the problems of inflation and increase in employment and national income.

Improve average supply and demand (for inflation and deflation) : 6



In the diagram E is starting equilibrium point where average demand average supply are equal and ON is equilibrium employment level. Now if improve average supply in the economy then average supply curve AS shift to AS_1 and equilibrium point shift from point E to E_1 and employment level increase from ON to ON_1 . Other hand if increase average demand the economy then average demand curve AD shift to AD_1 then equilibrium point shift from point E to point E_2 and employment level increase from ON to ON_2 but increase in both average demand & supply in the economy then average demand curve AD shift to AD_1 and average supply curve AS shift to AS_1 then equilibrium point shift from point E to point E_3 and employment level increased from ON to ON_3 . If stagflation in the economy then government should take policy for increase both average demand and supply. Its remove the problems of stagflation and increase in employment level. So, both average demand & supply are determination factors of employment level and national income in economy.

CONCLUSION

We have seen the classical employment theory and Keynesian employment theory both fail to remove the unemployment problem in India and other developing countries because both are incomplete theories because one is dependent on only supply factor and second is dependent on only demand factor. So both theories are not a general theory for removal of unemployment, both theories do not operate in all conditions (depression and information). So we need a general theory for removal of unemployment which operates in all conditions (inflation and depression). That theory should depend on both factors, demand and supply.

REFERENCE

1. Keynes, J.M.; General Theory of Employment, Interest and Money.
2. Todaro, M.P. & Smith, S.C.; Economic Development, Eight Edition, Person Education.
3. Dornbusch, R. & Fischer, S.; Macro Economics, Sixth Edition, T.M.H. Education Pvt. Ltd.
4. Ahuja, H.L.; Principles of Economics, (2014), S. Chand & Company Pvt. Ltd.
5. Dutt, R. & Sundaram, K.P.M.; Indian Economy, (2004), S. Chand & Company Pvt. Ltd.
6. Sethi, T.T.; Macro Economics, (2005), Lakshmi Narayn Agrval, Agra.

—==00==—