

THE MARGINAL PRODUCTIVITY OF LABOUR IN A LABOUR SURPLUS ECONOMY

Devaneson Nesiab

1. Pioneer work was done in this field by W. A. Lewis, followed by Todaro, Ranis, Rei and a host of others. They have helped to spot-light some basic facts such as:

- (i) There is much underutilized labour in many UDCS;
- (ii) This 'surplus' of labour represents untapped development potential;
- (iii) The wage-rate is for the greater part linked to institutional factors rather than to the interplay of supply and demand;
- (iv) Generally the supply far exceeds the demand save for seasonal shortages.

2. There has been much criticism of some of the cruder assumptions of the 'labour surplus' school, including the following:

- (i) The marginal productivity of labour in the rural sector is negligible or zero;
- (ii) Substantial quantities of labour can be drawn from the agricultural sector without drop in agricultural production;
- (iii) The wage-rate in this sector does not rise above the subsistence level.

3. This paper contradicts these three assumptions in the light of

- (i) Macro analysis of wage rates and labour use in paddy cultivation in Sri Lanka in the late nineteen sixties;
- (ii) Examination of the results of the paddy yield competitions conducted by the Government of Sri Lanka in the years 1966 to 1970;
- (iii) Analysis of a very simple micro model relating to migration out of the agricultural sector.