

## FUNCTIONAL DISTRIBUTION IN THE LARGE-SCALE MANUFACTURING SECTOR IN INDIA \*

M. G. K. REDDY AND  
S. VENKATESWARA RAO

THE object of this paper is to analyse how far the marginal productivity theory of distribution explains the relative shares of factors of production in the aggregate net product of the large-scale manufacturing sector in India. It is confined to the period 1946-57. As in the macro-economic formulation of the theory, only two functional categories are recognised — the wage-earners and salary-earners, on the one hand, and the capitalists, claiming the residual product, on the other. It, of course, involves gross violence to realities to treat the different kinds of labour and capital as two homogeneous categories, and more so to treat them as homogeneous over time. But the fact that the study is confined to a single sector of the economy and that only a twelve-year period is covered, keep these difficulties at a minimum.

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The marginal productivity theory of relative factor shares is an extension of the micro-theory of factor pricing. It, therefore, starts with the premise that the factors of production are paid at rates equal to their respective marginal productivities; that is, by implication, the total product gets exhausted when factor units are paid accordingly. This assumption is a bundle of two conditions, viz., (i) constant returns to scale and (ii) competitive markets in which the values of the marginal products are equal to the rates of factor remuneration. The first of these conditions is satisfied by production functions of the linear homogeneous type. As for the second condition, as Prof. Reder<sup>1</sup> puts it, "the use of the marginal productivity theory via an aggregate production function...implies only that... (the) departures (from competitive conditions) are uncorrelated with the variables in terms of which the theory operates (i.e., quantities of factors and products)".

The production function approach to the marginal productivity theory

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<sup>1</sup> Reder, M. W., 'Alternative Theories of Labour's Share', *Allocation of Economic Resources*, (Ed. Abramovitz), Stanford, 1959, p. 181.