

EMPLOYMENT AND DISTRIBUTION OF INCOME—A MODEL

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An attempt is made in this paper to present a macrostatic model portraying the mutual relationship of the pattern of distribution of national income and the level of employment. Elements of the ideas presented can be traced to Keynes (B), Kaldor (A), and many other writers; and they are here brought together within the frame work of a single model.

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The following assumptions are made to simplify analysis :—

(1) There are only two categories of producers sharing in the net product: the wage-earners, on the one hand, and the capitalists, receiving the residue on the other.

(2) The two factors of production, labour and capital, are respectively homogeneous entities, and the stock of productive capital, owned and employed by the capitalists, is constant.

(3) There is perfect competition in the product as well as the factor markets.

(4) There are no rigidities and bottlenecks in the adjustment process of the economy till the factors of production are fully employed. They are in perfectly elastic supply before full employment is reached, and in perfectly inelastic supply, thereafter. An important implication of this assumption is that the money-wage rate remains constant till labour is fully employed.

(5) So long as there is unemployment the price level varies in inverse proportion to the marginal product of labour, and after full employment, in direct proportion to money wage rate. In terms of Keynesian elasticities it means that the ratio of elasticity of price level with respect to changes in effective demand, and the elasticity of wage rate, is one; that is, $e_p/e_w = 1$.

(6) The economy is operating under conditions of diminishing returns to increases in employment.

The system of equations describing the relation between the variables concerned may be written thus:

$$0 = \phi(K, N) \quad (1)$$

$$\phi'_N = \frac{w}{p} \quad (2)$$