



The Lewis Model and India

For Prelims: Lewis Model, [Nobel Prize in Economics](#), Share of [Manufacturing sector](#) in India's GDP, Disguised unemployment, [Production-Linked Incentive](#), [Start-up India](#), [Make in India 2.0](#)

For Mains: Challenges in Implementation of Lewis Model in India, Alternatives to the Lewis Model for India.

[Source: IE](#)

Why in News?

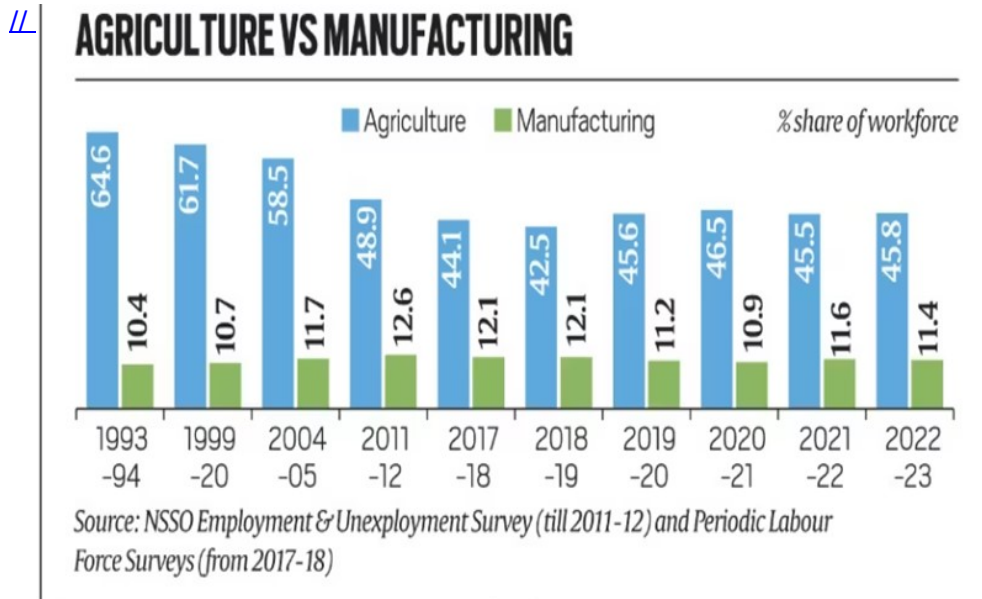
While the **Lewis Model has proved successful for China**, India grapples with its implementation, encountering challenges in the transition from agriculture to [industrialization](#).

- Also, as manufacturing trends towards higher capital intensity, India contemplates shifting to a 'farm-as-factory' labor model in response.

What is the Lewis Model?

- **About:**
 - In **1954**, economist **William Arthur Lewis** put forth the "**Economic Development with Unlimited Supplies of Labor**".
 - For this work Lewis won [Nobel Prize in Economics](#) in 1979.
 - The crux of the model suggested that **surplus labor in agriculture could be redirected to the [manufacturing sector](#)** by offering wages just high enough to attract workers away from the farm.
 - This shift, in theory, **would stimulate industrial growth**, enhance productivity, and lead to [economic development](#).
- **Lewis Model and China:**
 - The **model's application in China was successful**. Leveraging **surplus rural labor and demographic advantages**, China employed a **dual-track system merging market forces with state planning**.
 - This strategy attracted **foreign investment, boosted exports, and nurtured domestic industries**.
 - Extensive investments in infrastructure, education, and research and development enhanced **China's productivity and competitiveness**, resulting in **rapid industrialization, [poverty reduction](#), and a substantial transformation** of the economy.
- **Lewis Model and India:**
 - **Agriculture**, historically employing the majority of India's workforce, has seen a **gradual decline in its share of employment**.
 - Contrary to expectations, **this shift has not predominantly benefited the manufacturing sector**, which has only experienced marginal growth in its share of employment.

- **Employment in the manufacturing sector** has decreased to **11.4% in 2022-23** from its peak of 12.6% in 2011-12.
 - The **decrease in manufacturing employment** shows a trend of labor moving predominantly into **services and construction**, which contrasts the expected structural transformation outlined by economists Lewis.



What are the Challenges in Implementation of Lewis Model in India?

- **Obstacles of Low Wages:** Low wages and inadequate social security in urban manufacturing facilities fails to entice **rural agricultural laborers to relocate, given the high costs of urban living**, posing a hurdle to the implementation of the Lewis model.
- **Technological Shift in Manufacturing:** Manufacturing industries are **increasingly capital-intensive**, relying on **labor-displacing technologies** like **robotics and artificial intelligence**.
 - This transition **restricts the absorptive capacity** of labor-intensive sectors to accommodate surplus agricultural workers.
- **Disguised Unemployment:** India faces a scenario of **disguised unemployment in the agricultural sector**, where a surplus of workers is engaged in activities that do not significantly contribute to increased productivity or income.
 - This surplus labor situation **complicates the transition of workers to other sectors**.
- **Skill Mismatch:** There exists a **mismatch between the skills demanded by the industries and the skills possessed by the workforce**.
 - The education system might not adequately prepare individuals for the demands of the modern job market, resulting in a skill gap that impedes labor absorption in industries.
- **Overemphasis on White-Collar Jobs:** Societal perceptions often **prioritize white-collar jobs over vocational or technical skills**.
 - This bias against **blue-collar work** can limit the workforce available for skilled trade positions and technical jobs, affecting industrial growth.

What are the Recent Government Initiatives for Growth of the Industrial Sector in India?

- [Production-Linked Incentive \(PLI\)](#) - To scale up domestic manufacturing capability.
- [PM Gati Shakti- National Master Plan](#) - Multimodal connectivity infrastructure project.
- [Bharatmala Project](#) - To Improve connectivity with North East India
- [Start-up India](#) - To catalyze Startup culture in India
- [Make in India 2.0](#) - To transform India into a global design and manufacturing hub

Note: As India pursues the advancement of its industrial sector, it should **concurrently seek complementary alternatives** to augment its growth trajectory.

What are the Alternatives to the Lewis Model for India?

- **Farm-as-Factory Model:** This model suggests a focus on **elevating the value addition and productivity within India's agricultural sector** rather than transferring workers from agriculture to manufacturing.
 - By emphasizing the promotion of **agribusiness, bio-fuels, and food processing** this approach aims to enhance employment opportunities, income generation, and innovation for rural workers.
- **Services-led Model:** This model proposes that **India should leverage its comparative advantage in services** to drive its economic growth.
 - India has a strong presence in sectors such as **information technology, business process outsourcing, tourism, health care and entertainment**.
 - These sectors can create high-skilled jobs, boost exports, and attract foreign investment.
- **Amartya Sen's Capability Approach:** Instead of focusing solely on economic growth, **Amartya Sen's Capability Approach** emphasizes enhancing individuals' capabilities and freedoms.
 - By prioritizing **education, healthcare, and social support**, this approach aims to empower individuals to pursue their own choices and opportunities.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q.1 "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far are the recent changes in Industrial Policy capable of increasing the industrial growth rate? (2017)

Q.2 Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? (2014)

Q.3 Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports. Suggest measures for more labour-intensive rather than capital-intensive exports. (2017)