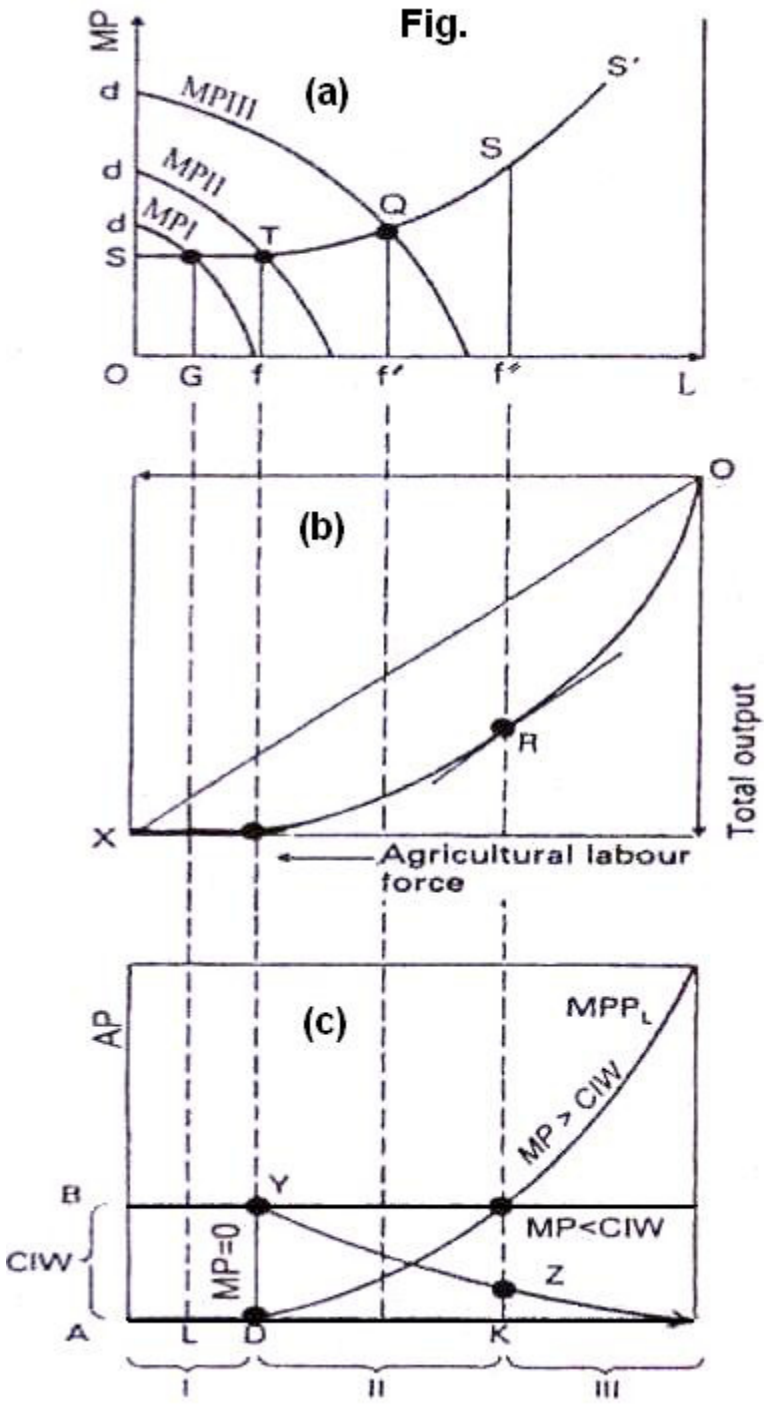
Fei Ranis Model Of Dual Economy

Stages of Fei-Ranis Model:

Fei and Ranis develop their dual economy model with the help of three stages of economic growth. They are presented as:

Diagram/Figure:



In the (a) part of the Fig., the labor supply curve is perfectly elastic, as between S and T. In phase (I) as shown in (c) part of Fig., the MPL = 0. In other words AL = MPL = 0. But here APL = AB. Following Lewis the FR model
argues that AD units of labor are the surplus amount of labor in agri. sector which is prey to disguised unemployment. Therefore, they can be withdrawn from agri. sector without changing agri. output. In phase (II) APL > MPL, but after AD, MPL begins to rise (c part of Fig). The growth of labor force in industrial sector increases from zero to OG (a part of Fig). The APL in agri. sector is shown by BYZ curve (c part of Fig).
After AD as migration takes place from agri. sector to industrial sector MP, > 0, but AP[_ falls. This shows a rise in real wages for industrial labors because of shortage of food supply. An increase in real wages will reduce profits and the size of 'surplus' which could have reploughed for further industrialization.

The investment in industrial sector (with the surplus earned) will shift the MP curve outward right as from aa to bb and then to cc. In this way agri. sector will be able to get rid of labor until the MPL = real wages = AB =
constant institutional wage (CIW) which is obtained by dividing the total agri. output ORX (b part of Fig) by AD amount of labor. In other words, the slope of ORX curve represents real wage rate. Thus the MPL = CIW where the tangent to the total output line ORX at X is parallel to OX. In the second phase DK amount of labor were employed. But still MPL < CIW or CIW > MPL. It means that in this phase still a certain amount of labor is surplus or they are prey to disguised unemployment.

The ***first stage of FR model*** is very similar to Lewis. Disguised unemployment comes into being because the supply of labor is perfectly elastic and MPL = 0. Therefore, such disguised

unemployed are to be transferred to industrial sector at the constant institutional wage.

In the ***second stage of FR model*** (phase) agri. workers add to agri. output but they produce less than institutional wage they get. In other words, in the second stage the labor surplus exists where APL > MPL, but it is not equal to subsistence (institutional) wages. Accordingly, such disguised unemployed also have to be transferred to industrial sector. If the migration to industrial sector continues a situation is eventually reached where the farm workers produce output equal to institutional wages. This would mean that productivity in agri. sector has gone up. With this the third phase (stage) starts.

In the ***third stage of FR model*** the take-off situation comes to an end and there begins the era of self-sustained growth where the farm workers produce more than the institutional wage they get. In this stage of economic growth the surplus labor comes to an end and the agri. sector becomes commercialized sector. All such is explained with the Fig.

Accordingly, they have to be shifted to industrial sector. As labor are transferred to industrial sector a shortage of labor will develop in agri. sector. In other words, it will be difficult for the industrial sector to get the labor at same prevailing constant wages. As a result, the wages in the industrial sector will rise as from T to Q in (a) part of Fig.

After point T the turn which occurs in the SZ curve is known as "Lewis Turning Point". In the 3rd phase the agri. laborers produce more than CIW. (As here MPL > CIW shown in (c) part of Fig). In this phase the take off comes to an end and self-sustained growth starts. This is also known as ***point of commercialization (of agri.) in FR model.*** Here the economy is fully commercialized in the absence of disguised unemployment. Such commercialization took place at

the cost of absorption of disguised unemployment in industrial sector.