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The Evolutionary Role of the International Labor Organization

by

Sarvan K. Bhatia

The causes of social discontent are deep-seated and complex. The sporadic outbursts in the nature of serious strikes or social unrest unfold an underlying frustration of the people impatient for social betterment. In several countries, such outbursts have led to the formation of totalitarian regimes following a revolution which denies the legitimacy of the existing social order. The Constitution of the International Labor Organization (hereinafter referred to ILO) states that universal peace can be established only if it is based upon social justice. It draws attention to the existence of conditions of labor which involve hardship to large numbers of people. It declares therefore that an improvement in those conditions of work is urgently required by the regulation of hours of work and labor supply, prevention of unemployment, etc. The ILO is accordingly engaged in an evolutionary process to bring about social improvement.¹ It has a practical approach to deal with social problems. By bringing together powerful social forces from different countries, the ILO provides an opportunity to work out solutions to concrete problems in a democratic way. The object is "to secure such a number of reforms that the danger of social revolution will be avoided, that the nineteenth century capitalistic system will be mellowed by social justice . . ."²

Although the ILO is an intergovernmental agency, it differs from other diplomatic bodies in one important way; its national delegations consist not only of government representatives but also of workers' and employers' organizations. Thus it is the only international organization of its kind which is composed on a tripartite basis. The International Labor Conference,³ the supreme body of ILO, constitutes a world forum for labor and social questions and each member state is represented by four delegates: two from government and one each from employers' and workers' associations at

¹Shotwell, James T. *THE ORIGINS OF THE ILO*, 1934, p. xxi. "The ILO is the only effort which has yet been made to give universal expression to this (evolutionary) method."

²Wilson, F. G. "The International Labor Organization" in *INTERNATIONAL CONCILIATION*, Nov. 1932, p. 405.

³The Conference has as one of its primary functions the adoption of international labor standards which are formulated in treaties called Conventions and Recommendations. There is a technical difference of legal character between the two: while the Conventions become, by ratification by governments concerned, binding international instruments, the Recommendations are essentially guides to national policy. However, these are not binding upon ILO members merely by virtue of their adoption.

national level. At its first session held in 1919, 40 countries were represented: 17 each from European and American states, five from Asia and one from the African continent. Several of the non-European countries however did not attend the subsequent sessions for many years. Therefore, to all intents and purposes, the ILO at its inception was an organization of states of "western" world. The situation since that time has changed drastically. Although the ILO membership has been growing since 1919, it was only after World War II when a number of countries from Asia and Africa achieved independence and joined the ILO that there was a rapid and significant increase in membership. By 1950, the ILO membership stood at 60; today, it has reached 110. And with increased membership, the balance between the continents has been altered profoundly. Africa, Asia and Latin America have come to assume a greater role in international affairs.

What has been the impact of this increase in membership on the ILO? Has a change in emphasis of the ILO's work been brought about? Has the ILO's traditional work been given a new look? What new problems has it had to face? Did the situation arising out of the Second World War exert any pressure on the ILO to give a new look to its traditional activities? And how far has the ILO been able to adjust itself to the new responsibilities brought to bear upon it? These form part of the many questions that have been analyzed in this article.

In its early days, as stated above, the ILO worked mainly in close contact with the more industrialized countries. European labor legislation provided the model for international labor Conventions.⁴ This was not surprising in view of the early impact of industrial revolution in western Europe and the consequent need for national measures to protect workers and to ensure a greater degree of social justice in a rapidly expanding industrial economy.⁵ The situation, however, changed after World War II. Various factors contributed to bring about this change. In the first place, the European economies had been impaired considerably by war and had to be rehabilitated. Then, there was the pressing character of labor and social problems in the newly evolving nations. Some of these countries were already engaged in diversifying their economies while others were impatient to move on to the road to industrialization. The political revolution which brought independent status to various countries was not an end in itself; it had to be supplanted by a successful economic revolution in order to provide the masses with varied opportunities for a better life. What has been called by Adlai Stevenson "the revolution of rising expectations" had gripped the people in the underdeveloped

⁴See footnote 3.

⁵For details, see ILO, REPORT I TO THE EUROPEAN REGIONAL CONFERENCE, 1955.

nations. After the achievement of political independence, the governments of these countries were determined to shake off conditions of poverty. Speaking about India, and this is applicable in a true measure to almost all newly independent nations, India's Prime Minister Nehru said:

There is a gap between the political revolution which has come and the economic revolution which ought to take place to fulfil the needs of political revolution. In western countries, the economic revolution in effect laid the ground for political advance and created the resources for it. The two revolutions went on more or less hand in hand. We have this tremendous difficulty that, without having created adequate resources through an economic revolution, we have to face demands of a successful political revolution.⁶

Adaptability to changing circumstances

Before considering the impact on the ILO of increased membership represented largely by underdeveloped countries, it will be appropriate to deal first with the decisions to bring about change in emphasis in the ILO program. These changes were made at the initiative of the ILO itself with a view to improving its adaptability to varying circumstances arising from the new role it had to play in the post-Second World War period. Perhaps the most significant step was the adoption in 1944 of the Declaration of Philadelphia which asserted the primacy of social objectives in international policy. It defined these objectives as the attainment of conditions in which "all human beings . . . have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity." At the same session was adopted a resolution concerning economic policies, international and national, that should be followed "for the attainment of social objectives." In the past, the ILO's approach and decisions were limited by an artificial separation of social and labor policy from economic and financial policy. The 1944 session emphasized the solemn obligation of the ILO to further world programs for full employment and to raise the standards of living of the masses. One of the most significant developments of 1944 session therefore was the recognition of the linkage of social and economic problems.

At its 1945 session, it was decided to set up the Conference Delegation on Constitutional Questions charged with the task of reviewing the past record of the ILO's work and to make proposals for "re-modelling and re-equipping the ILO" to enable it to discharge with greater efficiency its increased responsibilities. In view of the far-reaching decisions taken at the 1944 and 1945 sessions, it has been remarked that "in the 25 years of the life of the ILO there has never been a point at which it has discharged heavier responsibilities or

⁶Nehru, Jawaharlal in ILO, RECORD OF PROCEEDINGS, 1958, p. 4.

responded more readily to the changing requirements of a revolutionary epoch.”⁷

The 1944 and 1945 sessions therefore recognized the importance of economic stability and social objectives in the light of changed world situation. Significant differences in emphasis also were noticeable in the 1919 Preamble to ILO constitution and the Philadelphia Declaration. Whereas the 1919 Preamble simply declared that “the failure of any nation to adopt humane conditions of labor is an obstacle in the way of other nations which desire to improve the conditions in their own countries”, the Philadelphia Declaration extended this notion. It broadened the terminology and put it in more positive form stating that “*poverty anywhere constitutes a danger to prosperity everywhere.*”⁸ It was recognized that if the ILO is to remain true to its tradition of the promotion of social justice for the advancement of the cause of peace, it had to pay due attention to the millions of undernourished people. Social unrest in the underdeveloped nations was mounting and it was necessary that the new social forces be canalized and put to constructive use. Prior to World War II, the ILO had been engaged in the standard-setting activities and research work. The changed world situation in the mid 1940’s and the importance and complexity of manpower problems during the post-war period led the ILO to broaden its field of activity and to take upon itself enlarged responsibilities.

Growth of operational activities

To be sure, the ILO was undertaking operational activities prior to World War II also. However, after the war these activities entered a new and extensive phase of development. The special emphasis on operational activity was an outgrowth of ILO’s development work and also a logical response to the needs of post-war period. Through its standard-setting activities, the ILO was laying a basis for practical achievements in various countries. New developments after the war in political and economic spheres produced a series of urgent labor and social problems, throughout the world. These problems were particularly acute in the newly emergent nations which were embarking on programs of industrialization.

The operational program developed gradually over a number of years. Initially, it was in the nature of technical assistance missions sent to various countries, including Canada, England, and the United States, on the requests of governments concerned.⁹ At the end of the war, various complex and urgent problems were present in war-devastated areas and the ILO launched a special operational program, at first directed towards European problems.¹⁰ The first efforts were concentrated in the manpower field. These problems had arisen, on

⁷ILO, REPORT OF THE CONFERENCE DELEGATION ON CONSTITUTION QUESTIONS, 1946, p. 6.

⁸Italics provided.

⁹For a detailed account, see ILO, TECHNICAL ASSISTANCE, 1954.

¹⁰For details, see ILO, RECORD OF PROCEEDINGS, 1945.

the one hand, because of an acute shortage of skilled workers and technicians which proved an obstacle in the European recovery program, and on the other, in newly emergent nations, manpower resources were being wasted on account of widespread unemployment and underemployment. There seemed to be, therefore, two aspects of these questions: in the first place, there was the question of what may be called the qualitative adjustment of manpower supply and demand, and in the second place, the quantitative adjustment of manpower requirements and resources. On the recommendation of the European Economic Commission, the ILO launched a special manpower program to deal with problems of European states.

Thus the manpower problems arising in the European countries after World War II led to the systematic development of manpower organization program. This program was therefore the first attempt to bring the ILO into operational sphere on a large scale. These technical-cum-advisory activities were expanded greatly and extended to other regions with the inception in 1950 of the United Nations Expanded Program of Technical Assistance (EPTA).¹¹ One of the basic principles of EPTA is to help underdeveloped countries strengthen their economies through the development of their industries and agriculture with a view to promoting their independence, "economic and political," and to ensure the attainment of higher levels of economic and social welfare for the masses.¹² It was recognized that the assistance to be given to less developed areas of the world to develop their productive capacity in accordance with modern scientific ideas in respect of employment and conditions of work "is a direct challenge to the ILO".¹³ This was the new emphasis in the ILO policy.

Since 1950, the operational program has become a major feature of the overall activity of the ILO. It now includes work towards raising productivity, an entirely new departure for the ILO which has become one of its regular responsibilities, the ILO's traditional concern with industrial relations has been transformed into a program for the conscious promotion of better labor-management cooperation, workers' education, problems connected with the peaceful uses of atomic energy and the social consequences of automation and other forms of technical change.¹⁴ The evolution of ILO's program according to major areas of activity can be stated under following sectors: manpower organization (including vocational training), productivity and management development, cooperation, social security, and labor

¹¹The operational program carried out prior to the inauguration of EPTA had one common characteristic which may be considered as distinguishing it from operational work carried out in more recent years: it consisted of only one form of technical assistance—experts from ILO. Recent program is very comprehensive.

¹²Walter R. Sharp. *INTERNATIONAL TECHNICAL ASSISTANCE*, 1959, p. 60.

¹³ILO, *REPORT I TO THE 32nd SESSION*, 1949, p. 3.

¹⁴For details, see ILO, *THE ILO IN A CHANGING WORLD*, 1960.

conditions. The first category, namely, manpower organization has been the single most important sector of ILO activity which accounted for more than one-half of total expenditure out of EPTA funds beginning with 1950 till 1960; its relative share, as a result of increased available funds, has dropped now to 40 per cent.

In addition to the above projects concerned mostly with social and economic assistance to the recipient countries, the ILO's Governing Body in 1958 recommended that increased resources be made available for programs with social objectives as distinct from the primarily economic objectives of the EPTA: to increase assistance to countries which are not eligible under the EPTA and to enable the ILO to meet its rapidly growing responsibilities towards countries newly acquiring independence.¹⁵ The Governing Body is guided by the following main sets of considerations while allocating funds in ILO's work program:

The first and most important are the basic continuing needs for social action encountered by the ILO members.

In the second place, there are matters which require urgent attention on account of economic, social and political developments.

In the third place, there are considerations which are conditioned by the extent of support for particular activities.¹⁶

The ILO is undertaking technical cooperation programs under the EPTA, Special Fund (launched in 1959) and its regular budget.¹⁷ Of these three programs, the first still encompasses the greatest number of projects in the widest geographical area. For example, the ILO was conducting field projects in more than 80 countries under the EPTA last year. The number of projects, as compared with 1950, has increased ten times. The number of experts during the same period has gone up from 65 to 200 whereas the total expenditure has increased by almost 20 times. On the other hand, the Special Fund offers opportunities such as previous programs did not afford for "concentrated efforts to build up the social and economic infrastructure of the developing countries in the areas more directly capable of promoting economic growth."¹⁸ The existence of Special Fund has made it possible not only to increase substantially the vocational training program but also to transfer a number of projects originally under the EPTA so that the funds under this program may be freed for the expansion of other projects. It has been observed that this complementary relationship between the Special Fund and the technical assistance programs financed out of regular and extra-budgetary resources is "perhaps that most significant factor in renewing confidence on the possibility of further strengthening and improving,

¹⁵ILO, ACTIVITIES OF THE ILO, 1958-59, p. 3.

¹⁶For details, see ILO, ACTIVITIES OF THE ILO, 1959-60.

¹⁷The Special Fund was set up to offer technical assistance "in depth" concentrating on a limited number of major projects of key importance.

both qualitatively and quantitatively, the multilateral arrangements for technical cooperation within the United Nations framework."¹⁹

Although both international labor standards technical assistance activities are essential parts of the ILO's continuing program, put together these cover only a part of the ever-broadening area of industrial and labor concerns. The ILO has also been concerned with findings ways by which it could come nearer to the people it serves and nearer to the problems with which it deals. This has led to the evolution of the educational approach and is expected to supplement other approaches to social problems. In principle, the educational approach extends over all the fields of activity with which the ILO is concerned. However, it has been applied so far primarily in the field of labor-management relations and the related field of workers' education. A primary factor in the development of constructive labor-management relations is the attitude of management and labor. These attitudes are formed by education and experience and are modified by current pressures of industrial and social situation. With rapid technological changes and increasing momentum of industrialization, both management and labor have been faced with wider responsibilities and new problems. This has placed "an accent on adaptation and learning and has given considerable impetus to management development and workers' education, particularly in the industrially less advanced countries where the needs are greatest and the problems most acute."²⁰

In order to promote workers' education, a program was launched in 1956 with the primary aim of helping workers to equip themselves with the knowledge and understanding they need to carry out their functional and civic responsibilities in modern society and to contribute to the process of economic growth and social development. The ILO is laying the foundations for a rounded program of activity on workers' education without seeking to substitute itself for the trade unions or to undertake tasks which properly belong to the unions. It has also kept in view the fact that the needs for workers' education vary from one country to another and therefore the programs for different countries have been adjusted according to their needs.

The ILO has been providing technical assistance through the expansion of its operational activities. So far as its standard-setting work is concerned, fewer instruments in the form of Conventions and

¹⁸ILO, THE ROLE OF THE ILO IN THE PROMOTION OF ECONOMIC EXPANSION AND SOCIAL PROGRESS IN DEVELOPING COUNTRIES, 1962, p. 12.

¹⁹*ibid.*, p. 14. Though the aid being given through the United Nations family forms only a small fraction of the total aid for economic development, it is a happy augury that a notable change is reflected, on the part of industrialized nations, to recognize the needs of underdeveloped countries. It remains a sad commentary that in spite of increased amounts of assistance channeled for the purpose of promoting economic growth, it represents only a fraction of what is being spent on armaments.

²⁰ILO, THE ILO IN A CHANGING WORLD, 1962, p. 31.

Recommendations have been adopted by the International Labor Conference during the last decade than was the case during the first two decades of the ILO's existence. This may partly be accounted for by the changing world social situation which has a direct impact on the standard-setting work of the ILO. The varying needs of the ever-widening circle of member states have suggested the desirability of concentrating international labor standards to major social issues of general practical importance and of giving these standards increased flexibility. It can be stated that in general more attention has been given to the implementation of existing standards and rather less to the formulation of new standards except in the case of special issues of great international concern, such as the abolition of forced labor, or of concern to a group of countries.²¹ In addition, perhaps the most significant recent changes in the ILO's standard-setting activities relate to the machinery for supervising the application of instruments.

In the light of what has been discussed above, the question raised at the beginning of this article become more clear. The increased membership, represented largely by the economically less advanced countries, has had its impact in more than one way upon the ILO and its activities. The expansion of technical assistance programs and the launching of the EPTA and Special Fund programs are the direct result of attempting to meet the problems of these countries. The holding of regional conferences in these regions is another example. The increased representation given to the underdeveloped nations on the Governing Body and other expert committees emanates from their sheer numbers. The traditional work of the ILO has been modified, to a considerable extent, in order to favor expansion of technical assistance activities rather than the formulation of instruments for ratification by the governments concerned.

However, it remains to be seen how far the ILO will be able to help these less developed countries in raising the standard of living of their teeming millions who are living in ignorance. The agrarian economies of these countries are not, and cannot be for a long time to come, sufficient to provide the means of subsistence to the millions of undernourished and diseased people. Industrialization is one sure way of bringing considerable relief. The significant current developments in the ILO work can be seen principally in the fields of employment policy, training and manpower development and the raising of incomes and living standards. The increased attention being paid to these fields is a reflection of world-wide preoccupation with the need to accelerate economic growth in the economically underdeveloped areas of the world. It has been recognized that general improvement of any area is a matter of concern to all areas and to world peace and therefore the technical knowledge and experience acquired in industrially advanced countries should be made available to underdeveloped countries to diversify and modernize their economies. Finally, a beginning has been made. We have yet to bring it to a successful completion.

²¹*ibid.*, pp. 34-36.

Economic Growth and Income Distribution

by

Sarvan K. Bhatia

It was Karl Marx, one of the greatest critics of the capitalistic system, who brought into focus the fundamental role of economic growth and its interrelationship with the distribution of income. Marx pointed out that capitalism, like no other economic system known to man since the early recorded history, had opened new vistas of technological advance and economic progress. Likewise, we find that the economic models prepared by socialist and communist writers stressed the necessary connection between capital accumulation and the realization of profits without which a profit-based economy could not survive. But such writers also pointed out (and Marx was the leading critic) that the mechanism productive of economic progress, which is the crowning glory of capitalism, will also bring it down, because of the inherent weaknesses in capitalism.¹

Economic growth which has been by and large interpreted as conveying the increase over time of per capita output and income may be viewed as a consequence of increased per capita input and of changes in the production functions relating inputs and outputs. Income distribution under any economic system is likely to affect growth by its influence on inputs. This has usually been seen with regard to capital inputs. Thus, in a private profit or "capitalistic" economy, increases in the shares of income going to enterprise, profit recipients, and upper income groups in general have been believed, through their effects on investment demand or on saving, to result in increases in per capita input of capital. The effects of income distribution on other inputs have been long ignored or obscured in economies characterized by private investment in the material but not the human means of production. Yet these other inputs are important, and their importance has been recognized in socialist economies and in planning for underdeveloped areas of the world. The industrially advanced nations of the world have only recently paid increasing attention to this question.

It has been recognized that income distribution may determine economic growth by its implications for the increase of labor input through technical training, general education and research. It may also determine economic growth by its role in inducing or permitting varying proportions of the population, particularly among women, to participate in productive activity. Changes in the distribution of income will therefore alter economic growth insofar as these changes induce income recipients to alter the per capita inputs of productive services. Some redistribution of income, by affecting investment in skills and research, may induce technological advance. It should be recognized further that major effects on both income distribution and

¹For details, see Karl Marx and Friedrich Engels, *THE MANIFESTO OF THE COMMUNIST PARTY*, 1848.

growth may stem from changes in the shares of income or input taken by governmental bodies or the public sector of the economy as it has come to be called in respect of developmental planning in the underdeveloped nations. We have already observed that the governments in developing countries have already, in certain cases, by direction prescribed a different composition of output involving different rates of production of inputs for future production than would have been the case if the private recipients of income had spent their resources according to their own choice. Government may also reduce private income by conventional measures, as for example through taxation or inflation, and use its "income" to invest in educational services, technical research, public health services, dams, roads, or building the infrastructure for a nation's economy. On the other hand, government may reduce private incomes and use its own increased income for public consumption; one of the examples of increased government spending is the bulk of military expenditures undertaken by some countries in modern times.

Work of Modigliani, Friedman and others has raised serious doubt as to the extent to which permanent redistribution of income between upper and lower income groups would *per se* affect aggregative consumption.² Whereas failure to utilize some form of permanent income concept has resulted in varied estimates of the relation between income and propensity to consume, there may remain some grounds for expecting positive association between the marginal propensity to save and a relevant measure of income. In any event, aside from differences in incomes, different individuals may have different propensities to save and these propensities themselves may, furthermore, be altered by variation of parameters at the control of governmental authorities to which a reference has been made above. Thus, aggregate saving and growth may conceivably be affected both by redistribution of income among individuals and by alteration of individual saving functions. The results may differ also depending upon a host of factors, other than economic (as for example, social, cultural, political, etc.) as well as the stage of economic development of a nation just as we find today in respect of different countries engaged in the process of economic growth.

On a theoretical level, at least, Modigliani's models suggest lower marginal propensities to consume out of current income and out of wealth for the young than for the old inasmuch as the young must allocate any increase in resources over a longer expected remaining life. Since, in western countries, there is certainly a positive correlation over most of the age span between income and wealth on the one hand and age on the other, a redistribution of current income or wealth in favor of the poor seem to imply a higher rate of aggregate saving. However, there is disagreement among economists whether it is always true, or holds good and there is no

²For details, see Franco Modigliani and R. Brumberg, "Utility Analysis and the Consumption Function" in K. K. Kurihara, ed., POST-KEYNESIAN ECONOMICS, 1954 and Milton Friedman, A THEORY OF CONSUMPTION FUNCTION.

unanimity of point of view. In respect of emerging nations, however, the situation is different inasmuch as the young are hardly able to meet their growing demands out of their limited income and to that extent the question of their being able to make any large savings simply does not arise. In this latter category we can place almost two-thirds or over of the world population in practically all the continents of the world.

On the other hand, a case can be made that the upper income groups have higher marginal propensities to save than lower income groups and that a redistribution of income in favor of the wealthy given the assumption of full employment, may yet further increase investment and consequently the rate of economic growth. Whether it will in fact increase investment and economic growth, that is, whether the assumption of full employment is maintainable under these conditions is analysed below.

The problem of the maintenance of full employment in a private capitalistic economy may be reduced to that of the existence of an acceptable expected marginal profitability of investment at the rate of saving consistent with free individual choice and full employment. The attainability of such an acceptable expected marginal profitability of investment depends upon both the lower bound of what entrepreneurs would consider acceptable in the way of profit on investment and the production function or production possibilities which underly the expected profitability. What determines the lower bound of acceptable profits relates to expected returns and risks in the alternatives to investment in income-producing property. Thus, for example, high real rates of return on money, land, jewels etc. will all imply high lower bounds to the acceptable rate of profits on income producing property in the economy.³ To the extent that there is on balance an aversion to risk and uncertainty, the lower bound to the acceptable rate of return on income-producing property will be lower where the risk and uncertainty attached to alternative uses of funds are higher. This lower bound to the acceptable rate of return on investment will be higher to the extent that the risk and uncertainty attached to investment in income-producing property itself is higher.

The relation between the expected marginal productivity or marginal profitability of investment and the rate of saving may be seen as relating to the usually assumed declining marginal net productivity of factors of production. With the added assumption of linear homogeneity of the production function we find that the marginal productivity of capital is a function only of the ratios of capital and other factor inputs. In the simplified, two-input case involving capital and labor we may then see the marginal productivity of capital as a unique function of the capital-labor ratio declining as the capital-labor ratio increases. For a given rate of growth of the labor supply

³This argument would appear basically familiar to those who recall Keynes' analysis of chapters 16 and 17 of *THE GENERAL THEORY OF EMPLOYMENT, INTEREST AND MONEY*.

and a given ratio of saving to income there is a uniquely determined capital-labor ratio to which corresponds a uniquely determined marginal productivity of capital. Whether a particular saving ratio is consistent with full employment then depends on whether, given the rate of growth of labor supply, this saving ratio implies a capital-labor ratio for which the marginal productivity of capital is equal to or above the minimum acceptable rate of profit on investment.⁴ These considerations therefore suggest that the recommended stimuli to economic growth to be achieved by increasing the share of profits or generally increasing the shares of upper income groups may prove self-defeating. We may in fact be back with the old Keynesian "paradox of thrift" that redistributing income in such a way as to increase the propensity to save may reduce saving and investment by reducing income. If the increased share of profits lowers consumption demand and yet cannot generate increased investment demand because of the bottom stop provided by the acceptable rate of return in the face of declining marginal productivity of investment, the drop in aggregate demand may reduce the derived demand for capital goods. It may therefore appear to be an appropriate proposition that measures to increase consumption under normal conditions will stimulate business activity and hence economic growth of a nation.

We have alluded to the difficulties in stimulating business investment by increasing the share of income going to property owners or the upper income groups. One may perhaps doubt that in view of this whether much of the support for various presumed incentives to business investment (which take the form of increased shares of income for upper income groups) has any greater rationale than the self interest of such groups. This doubt seems all the more justified when one reflects that efforts to increase business investment by increasing upper income shares may be at the cost of other forms of investment which have greater effects in the direction of increasing output. Thus, first of all, it must be recognized that much of what is usually called consumption is actually private, non-business investment in durables. For example, changes in income distribution which have the effect of increasing current purchase of durable goods by consumers may have long-run effects on both growth and income distribution by increasing future output in the form of consumer services produced and received in the household sector of the economy. Anti-recession measures involving cuts in personal income taxes to stimulate consumption may thus properly be viewed as stimuli to investment and growth. A major component of investment in the sense we have interpreted the term, i.e., of adding to the stock of "inputs" for future production, is investment in education. Recent work on the production function by Solow and others suggesting that a major portion of output changes remains unexplained by changes in inputs of labor and physical capital may be interpreted as further evidence of the contribution to output by other factors among which

⁴See for example R. M. Solow, "A contribution to the theory of economic growth", *QUARTERLY JOURNAL OF ECONOMICS*, Feb. 1956, pp. 65-94, and James Tobin, "A dynamic aggregative model", *JOURNAL OF POLITICAL ECONOMY*, April 1955, pp. 103-115.

education is widely believed to bulk large. On an individual level, it would appear that investment in educating the undereducated would do much to increase both total output and the share of output received by lower income groups who tend to be precisely these undereducated. It is in this context that we can explain the great emphasis being placed by developing nations to provide educational facilities for their masses who have been steeped in ignorance for generations. In the United States, the very great inequality of income as between Negroes and whites can certainly be reduced substantially, if Negroes are endowed by means of better education with greater amounts of non-material but income-producing capital. One may therefore expect considerable complementarity between investment in education and in physical plant and equipment. After all, one can easily visualize the relationship between labor skills and productivity if only we bring in the question of education received by the labor force.

It may be added that a great deal of important non-property investment is undertaken by both business enterprise and government in the form of what is called "research and development" expenditures. There are strong arguments against leaving responsibility for all such expenditures to individual firms in that the unavoidable externalities of return from technological advance might well lead to sub-optimum expenditures for research on the part of individual firms. Moreover, one should be concerned if efforts to encourage investment in physical property such as have been undertaken in many western countries, including the United States, should imply a substitution of investment in physical plant for investment in research and development.

This brief article has attempted to show that there may indeed be a connection between the distribution of income and economic growth. The common notion that an increased share of profits must lead to greater investment or capital accumulation is however subject to serious dispute. In an economy subject to the possibility of inadequate effective demand, just as it happened during the late 1920's throughout the whole world, an increased share for profits may actually reduce investment demand by reducing the aggregate demand for output from which the demand for capital good is derived. It may therefore be suggested that in situations where the minimum acceptable rate of return is high as may be true in most of the developing economies because of risk attached to individual investment in income producing property, high premiums attached to other forms of investment, etc., social measures may well be taken to reduce the minimum acceptable rate of return. This might involve social planning and insurance to reduce risk, to eliminate preference for non-income producing assets (along with reduction in the rate of interest) and transfer of command over resources to those more capitalistically inclined members of society. Such a task can only be undertaken by the governments of the developing countries. Furthermore, in both advanced and underdeveloped economies, it is most important to bear in mind that economic growth may be achieved by an accumulation of resources of all inputs of future production, including material and non-material wealth of individuals and business enter-

prises. Substantial investment in human beings, in their physical and mental abilities, would contribute heavily to economic growth. It is in this context that Galbraith refers to "investment in human beings" as one of the primary forces leading to accelerated economic growth, and this is the reason why the governments in developing nations are paying a great deal of attention to the provision of educational facilities in their development plans.

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