

Kaldor Growth Model

Dr.Surendra Kumar

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Kaldor, in his writing or model, tries to find these causes (of this stability or instability) in the purely techno- economic regularities or irregularities of growth. To simplify the reasoning, he assumes that the mps of wage earners (s_w) is zero.

In these circumstances, the equation given above becomes:

$$\frac{P}{Y} = \frac{1}{s_p - s_w} \cdot \frac{I}{Y} - \frac{s_w}{s_p - s_w}, \text{ (since } s_w = 0)$$

Therefore,
$$\frac{P}{Y} = \frac{1}{s_p} \cdot \frac{I}{Y} - 0.$$

According to Harrod's model, the rate of accumulation (I/Y) is determined by the growth rate and the capital output ratio, that is

$$\frac{I}{Y} = G \cdot C_r, \text{ therefore, } \frac{P}{Y} = \frac{1}{s_p} \cdot \frac{I}{Y} = \frac{1}{s_p} \cdot GC_r$$

The economic meaning of this equation is that the share of profit in income is determined by the share of savings out of profit income (s_p), the growth rate (G) and the capital output ratio (C_r). If the first two indicators remain constant, the stability of the share of profit in income (P/Y) will then be determined by the stability of capital coefficient (C_r). To explain and to substantiate this stability, Kaldor introduced his famous technical progress function. Thus, under Kaldor's model, the share of profit, the rate of profit—which establishes S and I identity, assisted by technical progress function,¹ provides the mechanism of growth, stability and dynamics.

Critical Evaluation:

The basic features or novelties of Kaldor's model may be summed up as follows:

(a) Its great merit lies in the development of the concept of technical progress function and the belief that the technical progress acts as the main engine of growth. Technical progress function under Kaldor's model replaces the usual production function. According to him, the

basic functional relationship is not the production function expressing output per man as an increasing function of capital per man—but a technical progress function expressing the rate of increase in output per man as an increasing function of the rate of increase of investment.

(b) Another great merit of Kaldor's model lies in the views—that the inducement to invest does not depend on MEC or interest rate comparisons ; the rejection of long-run underemployment equilibrium; the introduction of a distribution mechanism into Harrod's model. Kaldor's model though essentially based on Keynesian concepts and Harrodian dynamic approach differs from them in a number of ways. Kaldor believes that economic growth and its process are based on the interdependence of the fundamental variables like savings, investment, productivity, etc.

In Kaldor's opinion a dynamic process of growth should not be presented and cannot be understood with the help of certain constants (like constant S_t/V_t or C/O ratio under Harrod's model) but in terms of the basic functional relationships. The basic fundamental relationships among the fraction of income saved, the fraction of income invested and the rate g increase of productivity per man, determine the outcome of the dynamic process.