Kaldor Growth Model

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The failure of money wages to keep pace with the rise in prices will reduce real income of wage earners and it will increase the profit margins of entrepreneurs. Since the mps of the latter group is, on the average higher than that of wage earners, the inflation induced shifts in the distribution of real income in favour of profits will increase the overall level of real saving in the economy.

This process will continue until the saving- income ratio (S/Y) is once again in equilibrium with the investment income ratio (I/Y). Thus, it is quite clear that the assumption of $s_p > s_w$ is of crucial importance in the Kaldor's model. In the absence of this assumption, the real S/Y will not rise irrespective of any change in the distribution of income. Consequently, the system may remain unstable.

Kaldor and Harrod:

We find, that $s_p > s_w$ is the basic equilibrium and stability condition. If $s_p < s_w$, there will be a fall in prices and cumulative decline in demand, price and income. Similarly, if $s_p > s_w$, there will be a rise in prices, cumulative rise in demand and income. The degree of stability of the system is dependent on the difference between the marginal propensities to save. If the difference between the two propensities (s_p and s_w,) is small, the coefficient $1/ s_p - s_w$ will be large with the result that small changes in the investment-income ratio (I/Y) will lead to relatively large changes in income distribution (P/Y) and vice-versa.