Intoduction Of Kaldor Growth Model

Dr.Surendra Kumar

Class-M.A.Sem-IV

It has been seen that the original Harrod-Domar model (hereafter, mentioned as H-D Model) is rigid, light, one sector and specific with respect to three parameters.

A constant proportion of income is assumed to be saved (S_t/Y_t). The full capacity condition means a constant capital output ratio (C/O) and further the condition that on full employment the demand for labour (associated with full capacity output) must grow at the constant rate (n).

Thus, on account of constant saving-income ratio, constant capital-output ratio and constant demand for labour on full employment, the H-D model becomes too rigid to be much use. But the H-D model becomes very useful if these conditions are relaxed. The parameters (constant variables) may be allowed to vary. We may vary the supply of labour and treat it as more flexible on full employment—this has been done by Mrs. Joan Robinson and her colleagues in Cambridge.

Her 'Golden Age Model' is discussed further. Again, we can take a varying band of values for capital-output ratio, thereby increasing the possibility of G_w being equal to G_n. This is the position of Neo-classical models developed by R.M. Solow, T.S. Swan, J.E. Meade, Samuelson, H.G. Johanson, and others. Lastly, we may allow the saving-income ratio to vary according to the distribution of income between wages and profits ($Y = W + P$). This is the approach adopted by Kaldor and, therefore, we discuss his basic model first of all.

Assumptions:

1. There are two factors of production capital and labour (K and L) and thus only two types of income profits and wages (P and W). All profits are saved and all wages are consumed.

2. There are constant returns to scale and production function remains unchanged over time. Capital and labour are complementary.

3. There is perfect competition as such the rates of wages and profits are same over different places.

4. The marginal propensity to consume of workers is greater than that of capitalists.

5. The investment-income (output) into (I/Y) is an independent variable.

6. There is a state of full employment so that total output or income (Y) is given.

7. There is an unlimited supply of labour at a constant wage in terms of wage goods.