Kaldor Growth Model

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Besides, Kaldor took certain facts as the bases of his model and as a starting point; for example, according to him, there is no recorded tendency for a falling rate of growth of productivity; there is a continued increase in the amount of capital per worker; there is a steady rate of profit on capital at least in the developed country; there is no change in the ratio of profits and wages—a rise in real wages is only in proportion to the rise in labour productivity; the capital-output ratios are steady over long periods—this implies near identity in the percentage rates of growth of production and of the capital stock; there are appreciable differences in the rate of growth of labour productivity and of total output in different sectors or economies.

Features:

The starting point of Kaldor is the belief that the income of the society is distributed between different classes, each having its own propensity to save (K = W + P). The equilibrium can be brought about only by a just and appropriate distribution of income. In other words, growth rate and income distribution are inherently connected elements. Kaldor’s model depends on these two elements and their relationships and brings forth the importance of distribution of income in the process of growth—this is one of the basic merits of Kaldor’s model.

In his model, on the one hand, the relations of distribution of income determine the given level of saving (or social saving) and, therefore, investment and economic growth rate. On the other hand, the achievement of this or definite growth rate requires a given level of investment and, therefore, of saving and hence, a corresponding distribution of income