Kaldor on Hayek’s Theory of Capital — 1936-1942

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Now known primarily as a post-Keynesian Cambridge economist, Nicholas Kaldor (1908-1989) worked at the London School of Economics (LSE) in the 1930s, where he was part of the Robbins Circle and was influenced by the Austrian school of economics, especially F.A. von Hayek’s theory of capital. In the aftermath of the Kaldor-Knight controversy in 1937-1938, however, Kaldor’s disagreement with Hayek’s theory of capital emerged in stinging criticism. The dispute between Kaldor and Hayek continued from 1939 to 1942. How and why did Kaldor criticize Hayek’s theory of capital? There have been few attempts to critically study this question. The present paper analyzes the impact of Kaldor on Hayek’s theory of capital in 1936-1942.

My discussion is organized in six parts: Section II elaborates on Hayek vs. Knight, Hayek’s trade cycle theories, and Kaldor’s critique of Hayek. Section III examines Kaldor’s views on Hayek’s theory of capital between 1937 and 1938. Sections IV and V examine the Kaldor-Hayek controversy. The analysis in Section IV of Kaldor’s “Capital Intensity and Trade Cycle” (1939) reveals that Kaldor’s trade cycle theory is directly opposed to that proposed by Hayek in Prices and Production (1931). Section V analyzes Kaldor’s “Professor Hayek and the Concertina Effect” (1942) and presents his critique on the Ricardo Effect by using two modified Uhr’s Wicksell diagrams. Section VI is a comparative investigation of the theories on capital of Hayek and Kaldor. Finally, in Section VII I discuss my conclusions that (1) Kaldor was a creative critic; (2) Kaldor’s criticism of Hayek’s theory of capital effectively stymied the evolution of any capital theory for several decades; and (3) Kaldor made important contributions to the Cambridge controversies on capital theory.

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