8 Robertson and Keynes on Investment and Saving

INTRODUCTION

From Robertson’s point of view there are two versions of Keynes’s analysis of investment, saving and the rate of interest.

There is first what we might call the Perceived Initial Version, which is cast entirely in static terms and which is dominated by the multiplier analysis. The multiplier plays a key role in this version because: (i) it supplies saving and finance automatically and so allows Keynes to avoid a rise in interest rates in the finance of investment; (ii) there is consequently no need for prices to rise as there is no requirement for an increase in bank credit; (iii) therefore there is no need for forced saving – as saving is automatically supplied to match investment – and there is no possibility of forced saving because prices do not rise; (iv) productivity and thrift are brought together in a neat relationship which does not allow them to interfere with the determination of the rate of interest; (v) this leaves the rate of interest to be determined entirely by changes in the supply and demand for money.

This version is obviously completely at odds with Robertson’s own theory, but in the second, or what we might think of as the Perceived Revised Version, there is a welcome return to the Robertsonian fold, for this version reflects Keynes’s alleged reaction to the revelation that lags operate in the real world.

With the introduction of ‘finance’ in advance of saving, Keynes is seen to accept a sequence of events compatible with the forced-saving process and to defend himself against this interpretation only by assuming output to be perfectly elastic. By the same token he admits that the productivity of investment can influence the demand for money and so the rate of interest. The admission is confirmed by Keynes’s approval of the IS–LM model, which also allows for a functional relationship between the rate of interest and saving, so
that Keynes finally accepts the loanable-funds view that the rate of interest is determined jointly by real and monetary forces.

In either version, this view of Keynes is almost wholly wrong and stems entirely from Robertson’s confusion over saving and the finance of investment. By dealing separately with the real-income adjustments of the investment–saving process on the one hand and the financing of investment on the other, we are exploiting one of Keynes’s most important insights, and also developing a framework which will enable us to think clearly about the real world and come to correct conclusions on questions of policy.

Before moving on to deal with the finance of investment in the next chapter, there are important questions central to the Robertson–Keynes debate which relate to the equality of saving and investment and to the static nature of Keynes’s theory.

KEYNES’S ‘TWO THEORIES’ OF $S = I$

It is an established tenet of the Keynesian critical heritage that Keynes was confused over the question of the equality of saving and investment. Keynes’s confusion is perceived to arise from his attempt to reconcile what were taken to be his two alternative explanations of why saving must always be equal to investment: namely, that they are equal by definition, and that they are made equal through the working of the multiplier. J. C. Gilbert, for example, has noticed that ‘Samuelson in 1946 pointed out that Keynes’s thinking remained fuzzy on this important analytical distinction throughout his life. In 1963, Samuelson referred to Robertson having rightly pointed out this mistake.’

An attempt at a reconciliation between the two approaches to equality was made many years ago by Alvin Hansen, who argued that the ‘source of confusion arose from the failure of his [Keynes’s] critics to realise that while investment and saving are always equal they are not always in equilibrium’.

That is, for the cases with which Keynes was mainly concerned – comparative statics or moving equilibrium – variables are always in a normal or desired functional relationship to each other, so that saving and investment will not only be equal but also in equilibrium. However, on the numerous occasions on which Keynes was dealing with processes of change which involved the lagged adjustment of certain variables, such as the adjustment of expenditure to changes in