

NEW: We have upgraded our email alerts. You can sign up using the 'Email alerts' panel available on most pages, or in your Oxford Academic personal account, where you can also manage any existing alerts.

JOURNAL ARTICLE

The loanable funds fallacy: saving, finance and equilibrium

[Get access >](#)

Cambridge Journal of Economics, Volume 34, Issue 4, July 2010, Pages 807–820,
<https://doi.org/10.1093/cje/bep073>

Published: 17 November 2009 **Article history** ▼

Abstract

The loanable funds controversy cannot be settled without prior agreement on the meanings of income and equilibrium. The essential claim of loanable funds theory is that disequilibrium in the goods market affects the rate of interest. This paper introduces financial accounting concepts and a new understanding of the principle of effective demand to clarify that loanable funds theory relies on a concept of income other than current income, namely yesterday's income in the case of Robertson, or full-employment equilibrium income in the case of Hicks. In Robertson's case, this is a matter of bad accounting, a confusion between an income statement and a balance sheet. In Hicks's more subtle case, it is about the inapplicability of Walras' Law to a monetary economy. Keynes's principle embodies a Marshallian concept of system equilibrium under which the goods market is treated as never in disequilibrium in the sense required by loanable funds theory.

© The Author 2009. Published by Oxford University Press on behalf of the Cambridge Political Economy Society. All rights reserved.

JEL: [B22 - Macroeconomics](#), [E20 - General](#), [E43 - Interest Rates: Determination, Term Structure, and Effects](#)

Issue Section: [Articles](#)

You do not currently have access to this article.

Sign in

 [Get help with access](#)


Personal account

- Sign in with email/username & password
- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

[Sign in >](#)

[Register](#)

Institutional access

 [Sign in through your institution](#)

[Sign in through your institution](#)

[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

Institutional account management

[Sign in as administrator](#)

Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

The loanable funds fallacy: saving, finance and equilibrium - 24 Hours access

EUR €39.00

GBP £33.00

USD \$43.00

Rental



This article is also available for rental through DeepDyve.