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Finance, Liquidity, Saving, and Investment

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Introduction

The post Keynesian approach to economic theory builds on Keynes's emphasis on the key role of investment in determining the level and rate of growth in economic activity (this emphasis is also to be found in Kalecki's writings). Desired saving is brought into equality with investment as a result of both the multiplier and income distribution effects of changes in investment. It is this investment which determines saving, rather than the reverse.

For the rate of investment in fixed capital to increase, entrepreneurs must be confident enough about the prospects of future profitability to commit themselves to the development and ownership of productive facilities, which require the provision of finance by banks, the expenditure of funds, and the assumption of liabilities by entrepreneurs that reduce their liquidity.[1] This requirement for finance—whose availability is a necessary condition for an increase in investment—was first treated explicitly in connection with a theory of aggregate demand by

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[1]Shackle (1983) has put this very succinctly. "Resources are liquid when they do not depend, for the retention of their value, on the presence and persistence of circumstances confined within a narrow range of variation. Resources are liquid when they are uncommitted to a highly specialized venture. But production is the activity of specializing materials and means to particular technical or aesthetic purposes. There is a conflict between the retention of liquidity and the giving of employment. The business man desires liquidity and refrains from giving employment, when he feels that he cannot exclude the possibility of disastrous losses as the sequel of any available venture" (p. 114).