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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