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The Independence of Finance from Saving: A Flow-of-Funds Interpretation

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The independence of finance from saving: a flow-of-funds interpretation

John Maynard Keynes's proposition that consumption-and-saving decisions on the part of the public exert no direct influence on the conditions of finance faced by investors has unsuccessfully been striving to escape the confining realm of unorthodox theory. Keynes's logic in establishing this point has been defined by his critics as "a historical puzzle" (Tsiang, 1980, p. 476), the steps of his analysis as "retrogressive" with respect to Wicksellian tradition (Leijonhufvud, 1981, p. 170), and his consequent statements in terms of the so-called paradox of thrift as "bombastic" (Miller, 1985, p. 276).[1]

Economists who, explicitly or implicitly, adhere to the *loanable funds* theory of interest claim that a public's shift from consumption to saving with the purpose of purchasing securities generates, *ceteris paribus*, an excess supply of funds that eases conditions in the capital

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