Twitter Thread by Jo Michell

Jo Michell
@JoMichell

Right, let’s do this.

Joan Robinson on investment and saving in 10 tweets or less. 1/

By investment is meant an addition to real capital ... This use of the word does not correspond to the everyday sense in which investment means merely acquiring a title to capital. ... Saving is the difference between income and expenditure on consumption. 2/

All incomes are derived either from producing C goods or producing I goods.

All income is spent on C goods or is saved.

The income derived from producing C goods is equal to what is spent on them.

Therefore, what is saved is equal to the income from producing I goods.

S=I 3/

The sum of all the savings, positive and negative, of individuals is the total increase in wealth of the community, and the increase in wealth of the community ... is the investment that has taken place.

But saving is not the same thing as investment. 4/

How does it come about that .. individuals always decide to save just as much as entrepreneurs have decided to invest?

Entrepreneurs decide to expand their plant ... Incomes increase.

With a higher level of income, and the same attitude to saving, the amount saved increases. 5/

Saving depends on income, and income depends on production of investment goods.

The argument does not run in the reverse way. The desire to save does not promote investment.

Suppose desire to save increases. Some spend less of their income. Activity and income fall. 6/

Whatever the attitude of individuals to saving may be, the amount that they actually save is determined for them by the decisions of the entrepreneurs as to the amount of investment goods it suits them to produce.

The actions of savers can only influence current consumption. 7/

Some appear to disagree with this view. If saving increases, they say, there is increased demand for securities. Securities are issued to finance investment and therefore an increase in saving leads to an increase in investment. This argument sinks at the first step. 8/

The error arises from the desire to find where the vanished savings have got to. The savings are nowhere. They have failed to come into existence because as one increases saving by reducing spending, others incomes fall off and they save less. 9/

If the amount that entrepreneurs are willing to invest is less than the amount that individuals, taken together, would want to save out of the incomes that full employment would entail, then there cannot be full employment. 10/

This should be the first lesson in macro. Most economists don’t understand it. Students should go no further until they’ve mastered it. No getting tangled up with sectoral balances. No AS-AD. Definitely no rinky dink loanable funds models. This is macro 101.