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TOPIC :- KEYNSIAN VIEW OF SAVING-INVESTMENT EQUALITY

Equality between saving and investment is regarded as an essential condition of equilibrium level of income, output and employment by Prof. J.M. Keynes as well as by classical economists. But, their approach and views regarding the phenomena are altogether different and controversial.

The classical view :-

The classical economists believed in the economy's equilibrium at full-employment level. In their view, saving-investment equality is brought about by the mechanism of the rate of interest. Rate of interest, thus, is regarded a strategic variable. The classical economists held that if saving and investment are equal at a time, they will be soon brought into equilibrium by automatic changes in the rate of interest. Moreover, the classical economists visualised equality between saving and investment at a point of full employment only. Thus, the classical notion of monetary equilibrium is one in which savings flow automatically into an equal amount of investment via changes in the interest rate to give full employment level of income.

Infact, the classical notion is about a special full employment equilibrium in which investment equals saving only at full employment and the equilibrating variables is the rate of interest.

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The Keynesian View :-

According to Prof. J. M. Keynes, the saving-investment equality is a condition of equilibrium at any level of employment, and not necessarily always the full employment level. More realistically, it is usually at less than full employment level. Again, savings and investment are brought into equality by income changes. Thus, Keynes put forward a revolutionised idea by treating the level of income rather than the rate of interest as the strategic or equilibrium variable which effectuates saving-investment equality.

Prof. Keynes analysed the saving-investment equality on two counts. They are as follows :-

(1) Accounting Equality :-

In the matrix of any national income accounting, it is observed that actual savings and actual investment are always identically equal. This accounting equality of savings and investment obviously follows when saving for national economy as a whole is defined as the aggregate of savings in the various sectors of economy in the form of excess of current income over current consumption, the current investment being that part of current income which is spent not for the purpose of consumption but for producing further goods. In the national investment income accounts, therefore, saving is numerically identical with investment. Prof. Keynes concludes that income is equal to the value of current output. He presented this conclusion in following way :-

Income = Value of output
= Consumption + Investment.
Saving = Income − Consumption
∴ Saving = Investment

(II) Functional Equality :-

According to Keynes, in the functional or scheduled sense, there is the saving schedule and investment schedule and the equality between investment and savings is a consequence of changes in the level of income. To him, equality between saving and investment function is an indispensable condition of equilibrium. No level of national income can be sustained without the equality of aggregate saving and aggregate investment. And he stressed the point that income is the functional variable that brings about an equality between saving and investment. Functional equality of saving and investment shows a proper way for macroeconomic activity's analysis made by Prof. Keynes.

Saving-Investment Relations:-

According to Keynes, varying levels of income cannot be sustained in an economy unless the amounts of savings at these levels of income are offset by an equivalent amount of investment. Thus the Keynesian theory draws the equilibrium relations between income, saving and investment. It stresses that the equilibrium level of income is realised where saving out of income is just equal to the actual amount of investment. Hence, Prof. Keynes explained saving and investment relations in terms of schedule relation.