

Copy

46 Gordon Square.

Bloomsbury

Professor Ragnar Frisch,

March 15th, 1934.

Cora Hotel,

Upper Woburn Place,

W.C.L

Dear Professor Frisch,

I have to thank you for calling my attention to a passage in the Memorandum of the Norwegian Government's Monetary Committee ("Pengekomiteen", St.med. nr. 19, 1934, Bilag 1), in which reference is made to my opinions; I should like to take this opportunity of saying that the reference in question seems, on the face of it, to be a misinterpretation of my views.

The Passage in question runs as follows:

"The idea that the production apparatus is now so great that new investments are not necessary in order to increase the volume of consumption goods ... is an optical illusion. The point is that what is needed is an expansion of the real capital stock ... but if that is so, saving comes in as a very important factor, as we see it Keynes has on this point drawn attention to something that is very important."

This seems to suggest that in my view saving, in the sense of abstaining on a larger scale than before from current consumption out of a given income, is a necessary prerequisite for a rise expansion of investment.¹ If this interpretation is correct, my view is in fact just the opposite of this; for I hold that, if the community is encouraged to diminish the proportion of its income which it spends on current consumption, this will lead to business losses and prove deterrent both to fresh investment and even to increased saving itself, since the unemployment resulting will so diminish the income of the community that the aggregate of saving will be even less than before.

In my opinion the right method of achieving an expansion of the real capital stock is to be encourage directly the production of capital goods either by credit and monetary policy, by organised measures to diminish the long term rate of interest, or more particularly by public works directly undertaken by the State. Measures of this kind will not only increase employment and general prosperity, but they will in fact increase the volume of saving itself and are indeed the only efficacious means of attaining this object. For the increased employment resulting from the increased investment I mean here to include not only the direct employment but also the indirect employment through the increased purchasing power and consumption of those directly employed – will so increase the real income of the community that they will quite naturally and of their own

¹ Note 10 Oct. 1956 by R.F.: Here there seems to be a word or two lacking. It has probably occurred while the letter was copied in the office of the Norwegian Storting. The text should probably read: "a rise in the expansions of investment", or perhaps simply: "an expansion of investment". The Oslo newspaper "Arbeiderbladet" brought on 20 March 1934 a complete translation into Norwegian where the text in question read: "en utvidet investeringsvirksomhet"

propensity set aside an increased sum out of their total income for saving. Moreover, there are in my opinion theoretical reasons why employment will continue to increase until their real incomes have sufficiently increased to induce them to set aside as savings just the amount which is required to provide for the new capital investment.

Please feel free to make any use of this letter which you think useful, for I should be very sorry to have my opinion quoted against those various measures for the increase of investment which seem to me vitally essential for success in diminishing unemployment and restoring the economic activities of our various communities somewhat nearer their optimum level.

Yours sincerely,

J.M. Keynes