

Lecture 8 - The Paradox of Thrift

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The General Theory of Employment, Interest and Money

For although the amount of his own saving is unlikely to have any significant influence on his own income, the reactions of the amount of his consumption on the incomes of others makes it impossible for all individuals simultaneously to save any given sums. Every such attempt to save more by reducing consumption will so affect incomes that the attempt necessarily defeats itself. It is, of course, just as impossible for the community as a whole to save less than the amount of current investment, since the attempt to do so will necessarily raise incomes to a level at which the sums which individuals choose to save add up to a figure exactly equal to the amount of investment.

Pre-Keynes Paradox of Thrift

Book of Proverbs:

*There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty.
(Proverbs 11:24)*

Bernard Mandeville's *The Fable of the Bees: or, Private Vices, Public Benefits* (1714):

As this prudent economy, which some people call Saving, is in private families the most certain method to increase an estate, so some imagine that, whether a country be barren or fruitful, the same method if generally pursued (which they think practicable) will have the same effect upon a whole nation, and that, for example, the English might be much richer than they are, if they would be as frugal as some of their neighbours. This, I think, is an error.

Thomas Malthus' paradox of thrift

Adam Smith has stated that capitals are increased by parsimony, that every frugal man is a public benefactor, and that the increase of wealth depends upon the balance of produce above consumption. That these propositions are true to a great extent is perfectly unquestionable. . . But it is quite obvious that they are not true to an indefinite extent, and that the principles of saving, pushed to excess, would destroy the motive to production. If every person were satisfied with the simplest food, the poorest clothing, and the meanest houses, it is certain that no other sort of food, clothing, and lodging would be in existence.