On the Spread of an Idea: The Strange Case of Mr. Harrod and the Multiplier

Daniele Besomi

Some scientific ideas are accepted immediately, others take years to be recognized or even need to be rediscovered; occasionally, they are never integrated into the mainstream at all. Then there are the strange cases of ideas that are overlooked even when conditions seem most favorable for prompt understanding and acceptance. This article discusses the difficult diffusion of one new idea, the investment multiplier, a concept whose significance was initially unapparent to Roy Harrod (1900–1978). The multiplier itself was troublesome: Ralph Hawtrey,
for instance, provided an early formulation but overlooked its implications (Dimand 1997), and Keynes and Richard Kahn themselves needed almost two years to fully appreciate its significance.

Harrod’s case, however, is even more puzzling. An intelligent reader, eager to understand the developments in the Keynesian field, he kept in regular contact with Keynes and his Cambridge followers. In 1932 Harrod had grasped the analytical properties of Kahn’s employment multiplier and was ready to apply it to foreign trade in the first edition of his book, *International Economics* (1933b). In 1933 he read Keynes’s articles on the multiplier principle, and in 1934 he and Kahn exchanged intense correspondence on its premises and main implications. However, unable to understand what was taking place, Harrod remained ignorant of the doctrine of effective demand until he read Keynes’s *General Theory* in proofs during the summer of 1935.

The case of Harrod and the multiplier is interesting for two reasons. First, it provides an example of the lack of automatism in the diffusion and acceptance of scientific concepts and of the necessity that the recipient and proposer of an idea actively connect it to the intellectual tradition of the discipline. Second, the publication of the Harrod-Keynes correspondence on the proofs of Keynes’s *General Theory* seems to suggest that Harrod must have played a role at an earlier stage as a discussant of Keynes’s ideas (see, e.g., Black 1997, 89). In reality, Harrod was out of touch with events and could call himself a “convert” only in October 1935 (Harrod to Robertson, 7 October; Harrod to Kaldor, 10 October).

What prevented Harrod from applying the multiplier principle to investment, despite his ability to transfer the concept from employment to foreign trade and the benefit of Kahn’s advice and guidance?

To establish the chronology necessary for my interpretation, I outline in section 1 the progress of the relevant ideas on the Keynesian front. Next, I examine the origin and early development of Harrod’s foreign trade multiplier; in section 3 I show that the analogy between this notion and Keynes’s investment multiplier is very strict. In the following section, I illustrate the evolution of Harrod’s approach to the saving-investment relationship, from his understanding of saving as a condition for accumulation in 1934 to the interpretation of the multiplier process that he integrated in his trade cycle theory in 1936. The relevant steps of this transition were “tutorials” by Kahn in autumn 1934, followed by an attempt to argue with Gottfried Haberler in terms of the equality of saving and investment, and finally by the reading of the *General Theory*, which was published in 1936. This intricate part of the story would be hard to believe if not buttressed by ample evidence; therefore, I examine in detail private correspondence. I conclude by suggesting that Harrod’s difficulties originated from his failure to appreciate the premise of Keynes’s reasoning, and I show how the process of understanding the Keynesian multiplier passed through the interpretation of the *General Theory* as a complete reorganization of the relationships between economic magnitudes.

1. The Background

Harrod developed his foreign trade multiplier and later learned of Keynes’s investment multiplier in the context of two debates: on saving and investment, and on the development of the doctrine of effective demand. After 1926, when Dennis Robertson reintroduced to his British colleagues the notion that saving can differ from investment, and up to 1932, it was common practice to analyze the trade cycle in terms of the gap between saving and investment and of the associated changes in the price level. This approach was shared by Keynes in the *Treatise on Money*, by Friedrich Hayek in *Prices and Production*, and by the London Hayekians and Oxford Keynesians who debated economic policy in the conclave of the New Fabian Research Bureau. Harrod took an active part in these debates; some of his important contributions—including a 1934 article titled “The Expansion of Credit in an Advancing Community,” which will be discussed in section 4—aimed to counter the Hayekian arguments without abandoning the saving-investment adjustment framework.1

After 1931, however, on the Keynesian front in Cambridge, other developments ensued. In the *Treatise on Money*, Keynes had already clearly outlined the limits of the usefulness of the quantity theory of money in disequilibrium situations (*Collected Writings* 5:120 [hereafter CW] Bridel 1987, 126) and had departed from the explanation in terms of the forced saving process (see, e.g., Bridel 1987, chap. 7). Shortly after the publication of his book, Keynes started to recast his analysis by shifting the emphasis from changes in prices to changes in the level of

---

1. Although in his article Harrod did not explicitly refer to the debates among the New Fabians, in correspondence with Kahn he made it clear that he had people like Evan Durbin and Douglas Jay in mind (see Harrod to Kahn, 25, 29 October 1934). Information on Harrod and the New Fabian Research Bureau can be found in Durbin 1985.
output. In the meantime, Kahn, on the one hand, insisted in pointing out to Keynes the special character of the Treatise’s definition of saving, and, on the other hand, developed the employment multiplier and discussed the implications of “Mr. Meade’s relation” (Kahn 1931). By March 1932 Keynes renounced his asymmetrical notion of saving and “bowed the knee” to the “common sense view” that savings and investment are, necessarily and at all times, equal, being, indeed, the same concept looked at from opposite points of view. Keynes was ready to infer the implication of this use of language that investment drags along saving at an equal pace and not the opposite, as was traditionally supposed: “S is not the voluntary result of virtuous decisions. In fact S is no longer the dog, which common sense believed it to be, but the tail” (CW, 13:276).

From the surviving evidence, it is not possible to ascertain precisely when Keynes concluded that fluctuations in the level of income play the equilibrating role between saving and investment, enabling him to complete the doctrine of effective demand. However, for our purposes it is enough to record that this was realized at the latest by early 1933, and that the principle of the multiplier was clearly expressed in the Times articles later collected as The Means to Prosperity, published in March 1933 (CW, 9:339–45, where Kahn’s article is cited). The publication date was the subject of correspondence with Harrod, who therefore is likely to have read the articles. He certainly read The Means to Prosperity, for he discussed some aspects of it with Robertson in correspondence. True, Keynes admitted that he had not attempted to show how he reached his results, and that he “perhaps [had] asked people too much to take it on trust” (letter to Dawson, 23 May 1933, in CW, 21:169). However, he remedied this in two further articles, one for The New Statesman and Nation published on 1 April 1933 (“The Multiplier,” in CW, 21:171–78) and the other in the Times of 5 April (“Mr. Keynes’s Reply to Criticism,” in CW, 21:178–85). There is no direct evidence as to whether or not Harrod read the “Multiplier” article; this, however, was cited in the piece for the Times, which was referred to by Robertson (together with “the last chapter of Multiplier pamphlet”) in a letter to Harrod of the same day.

The surviving evidence thus strongly suggests that Harrod was familiar with the relevant writings on the multiplier. Nevertheless, he was unaware that a fundamental change had occurred in Keynes’s approach. Harrod wrote several articles advocating “Keynesian” policies (1932a, 1932b, 1932c, 1933a, 1934b, 1934c), but kept arguing at least until spring 1935 in terms of natural and market rates of interest, referring to equilibrium as equality of saving and investment, and having price rather than output adjustments in mind.

2. The Multiplier in International Economics

Early in 1927 Harrod accepted Keynes’s invitation to write a book on international economics for the Cambridge Economic Handbooks series (Keynes to Harrod, 27 January; Harrod to Keynes, 3 February). However, because of various circumstances—including a nervous breakdown in 1928—Harrod actually started working on it much later, probably toward the end of 1931 or early in 1932.

A first draft of International Economics, including at least ten chapters, was ready by April 1932 (Robertson to Harrod, 6 April), and by March 1932 Harrod seems to have almost fully developed the principle of what he later called the “foreign trade multiplier,” which he submitted to Kahn for comments. Harrod’s letter to Kahn does not survive, but from Kahn’s remarks on a mechanism of equalization between imports and exports (Kahn to Harrod, 24 March), one can guess what

4. Harrod’s unequivocal statements are quoted in section 4.2 below.
5. The text underwent radical redrafting, and the book eventually included nine chapters only. None of the drafts was found among the papers of Harrod or those of the people with whom he discussed his work. The development of Harrod’s ideas can only be partially reconstructed from the extant correspondence.
6. Although the multiplier and its main implications were expressed in full by Kahn in 1931, the term multiplier first appeared in print in Keynes’s New Statesman article in April 1933, when Harrod’s book was already at the printer. Harrod so called the principle in the section “The Foreign Balance” in his book The Trade Cycle (1936, 146). (On the pre-Kahnian occurrences of the multiplier notion and terminology, see, e.g., Shackle 1967, chap. 14.)
7. Harrod’s view seems to have been first expounded on 10 March 1932 before the Marshall Society in Cambridge in a paper titled “Theory of Balance of Foreign Payments,” which unfortunately is no longer extant. According to the minutes of the Marshall Society, Harrod

2. For a description of Keynes’s 1932 Easter term lectures, which already saw the shift of emphasis toward movements of output, see Rymes 1989, chap. 2. A precise assessment of the chronology and the relative importance of the steps from the Treatise on Money to the General Theory has given rise to more disagreement among scholars (see Moggridge 1992, 558–66). For the purpose at hand, however, the dating of the fundamental acquisitions listed in the text is sufficient—“fundamental” referring not to Keynes’s own theory but to the elements that will later enter Harrod’s analysis.
Harrod was aiming at (although it is not possible to disentangle Harrod’s thought from Kahn’s interpretation of it). He must have argued—possibly as a comment to the footnote on page 190 of Kahn’s multiplier article (Kahn 1931)—that a fall of exports implies a reduction of home incomes, which in turn implies a drop of expenditure. Part of this will relate to imports, the remainder to home-produced goods, which again implies a reduction of incomes and of expenditure. The process stops when the induced drop of imports equals the original reduction of exports. Kahn pointed out that the implicit assumptions underlying Harrod’s argument were quite unrealistic, much like those of his own footnote, and criticized Harrod for not having considered the leakage from saving. In his following letter, Kahn referred to Harrod’s “geometrical progression” and stressed again that a term for “the proportion of disbursement going to securities” should be considered (Kahn to Harrod, 18 April 1932).

By September Harrod seems to have redrafted a good deal of his book (Robertson to Harrod, 9 September 1932). Robertson, as the assistant editor of the series, must have commented on the relationship between Harrod’s argument and the traditional approach to the balancing of exports and imports, for Harrod was planning to insert a footnote specifying that although traditional theory assumed a temporary balancing movement of short-term funds, he was dealing with “movements likely to rectify a permanent tendency towards an uneven balance.”

In November the topic was discussed with James Meade, who recast Harrod’s argument in algebraic terms. He calculated the direct and secondary implications of a change in a country’s proportion of income spent on imports and concluded that incomes of the country and of the outside world (taken as a whole) change in such a proportion as to give rise to a total variation in imports exactly balancing the variation in exports. The result was based on the assumption that on day $n$ people spent everything that they had received on day $n - 1$, and was expressed in terms of a convergent series depending on the country’s and the outside world’s proportions of income expended in foreign goods (Meade to Harrod, undated note). In his reply, Harrod interpreted Meade’s argument as follows:

Initially incomes in $x$ rise by $A$ and those in $y$ fall by $A$. Suppose the rate at which a given change in incomes diffuses its effect to be the same in both spheres. . . . Suppose that $y = -x$. Suppose the proportion of incomes in $x$ spent on imports to be $i$, and the proportion in $y$ to be $i(x/y)$. This is the natural assumption if the whole world is divided into $x$ and $y$.

Then the initial rise of incomes in $x$ diffuses employment in $x$ at a rate proportional to $1 - i$ and in $y$ at a rate proportional to $i$. While the fall of incomes in $y$ diffuses unemployment in $y$ at a rate proportional to $1 - i(x/y)$ and in $x$ at a rate prop. to $i(x/y)$. Then employment in $x$ is diffused at a rate prop. to $1 - i - i(x/y)$ and unemployment in $y$ at a rate prop. to $1 - i(x/y) - i$. Then the ratio of the rate at which imports into $x$ rise to that at which imports in $y$ fall is $t: i(x/y) = y:x$. Thus the gap originally caused between $x$’s imports and exports will be filled by increased imports and reduced exports in the proportion of $y$ to $x$. (Harrod to Meade, 25 November 1932)

Later, Meade showed this to be a particular case of his own more general statement (Meade to Harrod, 30 November 1932).

In December Keynes criticized Harrod’s exposition of his “self-regulating theory of the foreign balance” for appearing to be “independent of the policy pursued by the Central Bank.” Keynes thought that Harrod’s analysis was “very interesting in itself” but required the explicit introduction of several assumptions: “You really have primarily in mind, I think, the abstract case when there is no banking and no foreign investment, where a loss of gold depletes private balances pari passu and where individuals ‘automatically’ reduce their spending in order to restore their balances. But this is quite unrealistic” (Keynes to Harrod, 26 December 1932; Harrod’s side of the correspondence is not

9. Harrod wrote his letters quickly and rarely proofread them; he rarely ever used commas, systematically dropped apostrophes, and was sometimes inconsistent with his spelling. Needless to say, I have carefully checked my transcriptions against the originals. Although I am always grateful to have a transcription error brought to my attention, phrases and sentences that may appear mistranscribed are probably, alas, accurate transcriptions of Harrod’s manuscripts.
extant). After further discussion, both in correspondence and viva voce, Harrod introduced two sections in his chapter 6 (and probably radically redrafted the remainder of it) in which he analyzed equilibrium and the transition in simplified conditions. These sections satisfied Keynes, who asked for further revisions of the section “International Capital Movements” without, however, “criticising the substance of [Harrod’s] argument” (Keynes to Harrod, 25 January 1933).10

*International Economics* was in proofs by early April 1933 (Robertson to Harrod, 3 April) and was presumably published soon afterward. The principle of the foreign trade multiplier was stated as follows: Harrod assumed at first that all payments are in respect of goods and services traded, that there is no foreign or domestic investment, and that incomes are entirely and immediately devoted to consumption (Harrod 1933b, 104). He considered two groups of goods, those produced and traded at home (C goods), and those capable of entering into foreign trade (A and B goods, the former worldwide homogenous and the latter qualitatively different from country to country). Under these simplified conditions, the amount of production of A and B goods undertaken at home depends on the world price level and on the cost of production (reward of factors of production and their efficiency) (105).11 The proportion of expenditure devoted to A and B purchases, h, depends on the taste of consumers and on the relation of the world price level to the C goods price level (106). In these conditions, in equilibrium “the amount of income derived from the sales of A and B goods is equal to the amount of income expended upon them and trade balances” (105). In terms of proportions, we have the share of income derived from A and B sales (I/I) equal to h. Therefore I = [1/h] • I: “The total income of the community will be larger, the more favourable the determining conditions are to a large income derived from the sales of A and B goods and the smaller the proportion of income devoted to the purchase of them” (106–7).

Next, Harrod examined the consequences of a change in the funda-

10. Also the discussions with Robertson, contemporary with and subsequent to the exchange with Keynes, concerned the policy and the theoretical implications of Harrod’s doctrine rather than the multiplier principle itself. In particular, Robertson interpreted Harrod’s disagreement with Keynes as analogous to the debates on the transfer problem (Robertson to Harrod, 31 December 1932).

11. Harrod also considered as a supplementary factor the rate at which profits, as the most flexible kind of income, are squeezing or reasserting themselves after a change in the other conditions (105–6). For the present, however, we can ignore this factor.

...mental conditions; for example, of an increase of efficiency abroad. This would be met by a reduction of rewards at home and/or by a reduction of output. For the purpose at hand, Harrod’s examination of the latter case is the more interesting, for he traced the direct and secondary consequences of the primary reduction of income at home owing to the loss of advantage:

The loss of incomes in the A and B industries will be accompanied by a loss of incomes in the C industries sufficient to reduce the purchase of A and B goods by the amount that income from their sales has fallen off. Thus, provided that consumers do not spend more than they receive, purchasing power will be automatically reduced by a sufficient amount to entail a reduction of imports equal to that in exports.

This may be traced out. Suppose an initial loss of income in the A and B industries of £p. The individuals involved spend £p less. This reduction is divided among the two main classes of expenditure. If expenditure on A and B goods is reduced by £q1, that on C goods is reduced by £p – q1. The income of the C industries is now reduced by £p – q1, and individuals in these industries will spend less; if they spend £q2 on A and B goods, they will spend £p – q1 – q2 less on C goods, and there will be a further consequential reduction of incomes in C industries of £p – q1 – q2. This entails a further reduction of expenditure on both categories. Reduction of incomes in the C industries will proceed by the progressive transfer of reduction, until there is no more reduction to transfer. This happens when £p – (q1 + q2 + ...) is zero, i.e. when q1 + q2 + ... = p. But the left-hand side of this equation is the sum of all the reductions in expenditure on A and B goods, while p is the initial loss of income from A and B sales. Thus the reduction in A and B purchases is equal to the reduction in A and B sales. This result that, provided no one spends more than he receives in income, total income will be reduced sufficiently to curtail expenditure on imports by the amount that exports have declined has absolute generality. (110–11)

This argument was generalized to the case where there are other items on current account in the foreign balance—the equilibrium formula becoming \( I = 1/h (I + F) \), \( F \) being the net active balance on items other than A and B goods)—and to capital movements (chap. 4, sects. 3 and 4 respectively). Finally, Harrod removed the assumption that the coun-
try was on a gold standard or under a regime of fixed exchange rates. His policy conclusion (as summarized in a letter to Robertson of 29 April 1933) was that improvement in the foreign current credit account has the same potentiality of giving employment as public works. But if that potentiality becomes an actuality (i.e. is not counteracted by hoarding or some such process) the increased employment will wipe out the balance. The extra credit will be offset by an extra debit. . . .

There is however one complication. If a balance is achieved by a tariff or a change of taste, that balance has the same effect as an increase of the credit account. Here again the balance has its full natural effect in stimulating employment, it will be destroyed. So even in that case it isn't the achievement of a favorable balance, but its achievement + its utilization + its consequent annihilation that goes with improved employment.

3. The Investment and Foreign Trade Multipliers

Harrod’s correspondence with Kahn and Meade suggests that he was aware that his “self-regulating theory of the foreign balance” belonged to the multiplier family. His explanation of how an increase in exports induces income change at home, which in turn leads to an increase of imports equilibrating the balance of trade, testifies that he assimilated the analytical properties of the multiplier.

The reason he wrote to Kahn in the first place, with whom he was not on familiar terms at the time, probably stems from his interest in hearing what Kahn, as the creator of the mechanism, had to say. From Kahn’s references, it is apparent that his article “The Relation of Home Investment to Unemployment” had already been referred to by Harrod in his (no longer extant) previous letter in the exchange. The correspondence with Kahn concludes with an agreement on “the main point”: “Secondary unemployment is a matter of prime importance” (Kahn to Harrod, 18 April 1932). Later, Harrod submitted his revised draft to the inventor of “Mr. Meade’s relation” (cited by Kahn in his letter to Harrod of 24 March 1932) probably for the same reason.

The mechanism of Harrod’s foreign trade multiplier is exactly analogous to Kahn’s employment multiplier. They both result from infinite, convergent series representing the spreading out of induced effects from a local source to the whole economic system. In both cases, the secondary consequences of the original cause diffuse indirectly, but via a series of acts of expenditure and consequent realization of incomes made possible by the originating source (public works, or an increase in exports), and limited by some leakage (part of the new income is saved or spent abroad, respectively). In both cases, the cumulated primary and secondary effects make up for the cause of the original imbalance: savings out of the new income provide the monetary sources available for the investment that generated them, whereas imports stimulated by the accrued incomes increase just enough to offset the increase of exports that originated them. Finally, the variation in the balancing factor—income—depends on the magnitude of the leakage, the proportion of un consumed income, and the proportion of income spent abroad respectively.

However, although Harrod has been able to apply the multiplier to the problem of the balance of trade, he has been singularly deaf to the warnings that he was disregarding leakage caused by saving. Kahn stressed that the assumption that all disbursements are devoted to goods is absurd, since people save money and buy securities, and concluded that Harrod’s result should be corrected, for “the reduction in imports falls short of the reduction in exports by the reduction in savings” (Kahn to Harrod, 24 March 1932). In both his letters, Kahn insisted on the implications of Mr. Meade’s relation on the equality between saving and investment: “A reduction in disbursements on goods is passed on in the manner you describe, but a reduction in disbursement on securities is met by an equal reduction in the supply of securities as a result of losses, unemployment etc., and there are no repercussions” (Kahn to Harrod, 18 April 1932). Keynes, too, reminded Harrod of the role of investment: “I think the reader might suppose that income in your sense depends on output and cost of production. I wonder whether he would readily see that the mere fact of increased home investment increases income” (Keynes to Harrod, 16 February 1933). A few years later, Harrod admitted that in International Economics he had overlooked the role of saving investment in the determination of income: “I . . . proceeded to take capital movements into account, without going deeply into the relation between the propensity to save and the demand for capital goods. I assumed that the fundamental principles which would prevail in simplified conditions would also do so in
the more complicated case in which capital movements are taken into account; this treatment was in accord with orthodox doctrine” (Harrod 1936, 149). This omission is an early symptom of Harrod’s inability to understand the implications of the multiplier for the traditional doctrine of accumulation of capital. The full evidence is found in the prolonged and intense debates that took place between August 1934 and March 1935 among Harrod, Robertson, Haberler, and Kahn on the saving-investment relationship.

4. Harrod on Saving and Investment

In August 1934 Harrod published an article in *Economica*, “The Expansion of Credit in an Advancing Community” (1934a), which was intended to expose a fallacy in the argument put forward by Hayek and his followers that any injection of credit into the economic system would cause distorting effects on the price levels of consumption goods as compared to the prices of capital goods. This article, together with a letter Harrod wrote along the same lines to the editor of the *Economist* (Harrod 1934b), created quite a stir: Robertson first, and later Haberler and Karl Bode, replied in the columns of *Economica* (Robertson 1934; Bode and Haberler 1935); Harrod replied to both papers (Harrod 1934d, 1935); Nicholas Kaldor, Haberler, and others replied to Harrod’s letter to the *Economist* (Kaldor 1934; Haberler 1934), stimulating a further rejoinder from Harrod (1934c). At the same time, the debate was carried on in extensive private correspondence among Harrod and Robertson, Kahn, Bode, and Haberler; the latter also sent a copy of his correspondence with Harrod to Kaldor, Robertson, and Erik Lindahl, with whom these topics were further discussed.

This article and the ensuing correspondence are useful for understanding the development of Harrod’s thought on the saving and investment relationship and eventually on his understanding of the implications of the multiplier.

In his *Economica* and *Economist* contributions, Harrod criticized the Hayekian argument from within its own premises: he refuted the forced saving doctrine, not as a principle of explanation but insofar as it ignored that a component of saving “does not come forward into the loan market, but is used to supplement the value of [the community’s] holding of money” (1934b). Harrod argued that to maintain a state of equilibrium advance, continuous injections of credit are necessary to offset the component of saving retained as part of the monetary stock. His reasoning was carried out in terms of natural and market rates; equilibrium was conceived of as the equality of saving and investment, and banking policies should consist in price stabilization. Harrod was thus referring to a conceptual framework that had been abandoned at least one year earlier by the Keynesian circle. In particular, he was still treating saving as the autonomous variable, implicitly accepting the view that the resources to be turned into “aids to production” can only come from the un consumed part of income: “The natural rate of interest is that which causes real capital to be increased at a rate equal to that at which the aggregate savings of the community increase” (Harrod 1934a, 297, emphasis added).

Yet, surprisingly, Robertson interpreted Harrod’s criticism of the Hayekian analysis as an instance of the “Grand Monetary Tautology”: “The bank’s balance-sheet always balances: alias Savings always equal Investment: alias all money which is anywhere must be somewhere” (Robertson 1934, 473). Evidently, he was here understanding Harrod’s position as if Harrod shared Keynes and Kahn’s view of saving and investment. This is certified by the following passage from a letter to Haberler:

The Keynes-Kahn-Harrod “Grand Tautology,” as I call it, rests on the following piece of reasoning:

Income (in any period) = sale value of consumable goods plus sale value of new capital goods.

Income (in any period) = expenditure on consumable goods plus savings.

Sale value of consumable goods in any period = expenditure on consumable goods.

\[ \therefore (by \ subtraction), \text{ saving } = \text{ expenditure on new capital goods } \] (“investment”).

\[ \ldots \text{ If the banks finance new investment, the money created passes into somebody’s bank balance, i.e., is saved by somebody, so both saving and investment are increased. (Robertson to Haberler, 1 November 1934) } \]

Harrod rejected this interpretation, adjusted his notion of saving (1934c), and explained that he aimed to rescue “the dictum [that new loanable funds must be equated to new savings] from futility” (1934d, 476–77): “This equation will not always hold whatever banking policy
is adopted; it will only if the value of money is stable. For only then is
the increment in the value of total money equal to the value of the
increment (new bank credit). Thus total new savings will only be equal
to total new loanable funds, if the banks provide sufficient new credit
to keep the value of money stable. With this definition the dictum
becomes fruitful once more” (477).

4.1. Kahn’s Supervision

The shift in Harrod’s interpretation is better understood through his
correspondence with Kahn and Haberler. Harrod had sent Kahn an offprint
of his August Economica article on 15 October, explaining that it was
meant “to get the Hayekian fallacy out of the way.” In Harrod’s view,
the mistake consisted in the fact that “[Hayek] uses the loans should
be equal to savings dictum in a form (unlike JMK’s: I am very impa-
tient to know this revised version) in which loans = savings is a taut-
ology. And he then condemns certain banking policies on the ground
that loans would not be equal to savings” (Harrod to Kahn, 15 October
1934). Harrod then specified that he did not think that referring only
to the notion of saving put forward in the Treatise on Money would
suffice and explained that his next letter to the Economist attempted
to solve the issue by proposing a new definition of saving, “which makes
loans = saving not a tautology” (15 October 1934). At this juncture,
Harrod did not explain to Kahn his desire to avoid a notion of saving
that made it identical to investment; it is thus not surprising that Kahn
was somewhat puzzled by Harrod’s approach.

In addition, this exchange between Harrod and Kahn must be con-
sidered in light of the fact that on a few occasions in the three pre-
ceding years Kahn had already expounded to Harrod his reflections
on the terminology regarding saving and investment. At the end of
June 1931 Kahn had emphasized the special character of the definition
of income given in the Treatise on Money: “It does not include ‘profits,’
so that the profits that are spent . . . appear as negative saving. In
other words, E – S is inevitably, and by definition, the amount being
spent on consumption, so that \( Q_1 = (E - S) - (E - I) \). But, of course, it
all depends on the definitions” (Kahn to Harrod, 25 June 1931). In the

same letter, Kahn opposed Keynes’s definition of saving to the “ordi-
nary simple-minded definitions as the difference between net receipts
and expenditure” and mentioned the discussion that occurred within
the Circus. In March 1932, while commenting on Harrod’s Interna-
tional Economics, Kahn discussed the relationship between interna-
tional lending and saving, arguing in terms of “Mr. Meade’s relation”
(Kahn to Harrod, 24 March 1932). Moreover, a few months later Kahn
had asked James Meade to instruct Harrod on the developments taking
place in Cambridge.13

To complete the picture, in January 1933 Keynes himself informed
Harrod that he had reverted to the “common sense” definition of sav-
ing.14 Shortly afterward, Joan Robinson sent Harrod an offprint of her
“Parable on Saving and Investment” (1933), where she emphasized the
role of speculation on the security market and of the adjustments in out-
put and employment for savings to find their way to the security market
(Robinson to Harrod, 18 March 1933). Finally, Harrod must have been
familiar with Keynes’s Means to Posterity (1933), because Keynes kept
him up to date about the scheduled date for the appearance of the or-
iginal articles in the Times (Keynes to Harrod 25, 28 February; 2 March
1933) and because he discussed certain aspects of them in correspond-
ence with Robertson (Robertson to Harrod, 5 April 1933; Harrod to
Robertson, 29 April 1933).

Kahn’s bewilderment certainly originated from the assumption that
Harrod was familiar with the recent developments occurring in the
Keynesian circle; in reality, Harrod had not grasped the implications of
what he had read. This became evident to both parties as the exchange
of views progressed, so that Kahn soon assumed the role of “supervi-
sor” while Harrod applied the new knowledge he acquired in the “exer-
cise” of arguing against Haberler’s position.

Kahn’s comments on Harrod’s article and letter were sent on 22 Octo-

13. “It is very curious that your relation, who is such a success in Cambridge, should have
made so little progress in Oxford. Can’t you open Harrod’s eyes on her charms?” (Kahn
to Meade, 14 June 1932).
14. Keynes’s comment was formulated at the time Harrod was revising his Interna-
tional Economics: “As regards nomenclature, I am now in lectures using Income in the old-
fashioned sense, as you use it, and I shall do so in my next book. So please do not try
and accommodate yourself to me on that point. I am, however, for what seemed to me over-
whelming reasons, continuing use Savings in my own revised sense. For Savings in the old
sense, meaning the excess of income over expenditure, I now use the phrase Surplus income,
or Surplus for short. Unconsumed Income would do equally well” (Keynes to Harrod, 31 January 1933).

12. “I feel it is not enough to reply by pointing to the somewhat complicated rival system
of JMK” (Harrod to Kahn, 15 October 1934).
ber 1934, after the correspondence with Robertson was concluded and the first draft of Harrod's reply for the *Economist* was sent to Haberler. In this and in the following letters, Kahn firmly expressed his (and the Keynesians's) preference for the “simple-minded” definition of saving, drawing out its consequences, and carefully pointing out the distance between his position and Harrod's:

I take my standpoint on the fundamental truism that savings are always and in every situation equal to investment. (Why by the way did you refer in your letter to the “somewhat complicated rival system of J.M.K.”? Could anything be simpler and more beautiful than this truism and all that goes with it?) Your proposition that savings are always equal to loanable funds is merely another aspect of this same truism. It is surely clear that your truism like mine must be universally true. The proof which you give in your letter to the “Economist” is of general validity and cannot be restricted to the case of stable prices. (Kahn to Harrod, 22 October 1934)

According to Kahn, “It is the most complete nonsense to suppose that the ideal behaviour of banks can be framed in terms of any proposition involving the level of prices. How prices behave depends on how wages behave, and that in turn depends on how Trade Unions behave” (22 October 1934). He thus concluded: “In short, I do not think in terms of money and prices. In the view of Keynes and his followers the Theory of Money has ceased to exist. Of course, that is an exaggeration (it is the quantity of money which determines the rate of interest), but the exaggeration is a pardonable one” (22 October 1934).

Harrod, however, did not fully appreciate the implications of Kahn’s point. In fact, for some time Harrod kept arguing with Haberler on the basis of variations of prices and of the forced saving process, but he also argued (with both Kahn and Haberler) that the whole matter was a question of the definition of saving. Harrod maintained that some notion of saving allowing a difference from investment is necessary to discuss the trade cycle:

I dont agree that your position is simple. The negative part is of course simple, viz[.] that new loanable funds = new savings is a tautology. But then that does not when the phenomenon which it is required to characterize, namely that in some sense in the boom Investments > Savings. That is where the complication comes in. To explain in what sense, you have to expound Maynard’s definitions. And they are not simple, nor, is it agreed I take it, altogether satisfactory in their old form. That is why I am impatient for the new book. (Harrod to Kahn, 25 October 1934)

Kahn objected to both of Harrod’s arguments, pointing out that it is not possible “to fight [the Hayekians] on their own ground because this ground does not exist”:

It seems to me that you are giving far too much away to them by implying that the price level is of any particular significance. . . .

The fact, I fear, is that we are not yet in complete accord. There is no sense, as I see it, in which “investment > savings;” even in a boom. In fact, in my philosophy there is no such thing as a boom—not what you mean by a boom. The great point to get clear is that investment is always equal to savings; and that is the whole of the matter. (Kahn to Harrod, 28 October 1934)

After having received this letter, Harrod finally made explicit to both Kahn and Haberler the whole ground of his search for a new definition of saving. On the one hand, he thought that the trade cycle is characterized by a cumulative disequilibrium between saving and investment, and thus maintained that an appropriate “kind of explanation” (Harrod to Haberler, 19 October, 5 November 1934, emphasis added) of the phenomenon must admit the possibility of a difference between saving and investment. On the other hand, he was not satisfied (for reasons he did not explain in detail) with the notion Keynes put forward in the *Treatise* their position so very comic). But it is hopeless, as I look at it, to try to make things look plausible to them (Kahn to Harrod, 29 October 1934).
on Money, so that he felt the necessity to work out a new one. He thus explained to Haberler that “unless you give an unusual definition to savings, the proposition that saving = investment is true in all circumstances,” and that therefore “in order to construct a theory of the Trade Cycle based on the disparity between saving and investment, either saving or investment must necessarily be given an unusual sense. Otherwise the theory is necessarily fallacious” (Harrod to Haberler, 29 October 1934). On the same day, Harrod expressed the same opinion to Kahn:

I disliked the Treatise on terminological grounds very strongly, but adopted the terminology, because I had to tell people to read it in order to discover the truth. There has been a certain amount of acclimatization by this time, but now everything is to be altered again. If the alteration is towards old fashioned terminology, I am all for it. But when you say that “there is no such thing as a boom” my heart shrinks.

When you say that Investment is always equal to saving and that is the whole of the matter, I think it may be the whole of the matter so far as the Hayekian arguments are concerned; but this tautology does not contain the secret of the trade cycle! (Harrod to Kahn, 29 October 1934)

This aspect of the debate provides further evidence that Harrod was completely unaware of the developments taking place among the circle of Cambridge Keynesians. Kahn replied with an altogether too brief summary of the Keynesian position, in which he overstressed the advantages of the new definition of saving with respect to the old. According to Kahn, the choice of definitions

is not merely a question of convenience, but also one of truth. “The difference between savings and investment” is universally interpreted as having a real meaning, in the sense of affording a causal inter-

pretation of observed phenomena, and not merely as the difference between actual income and some arbitrarily chosen “normal” income, which is all that it really is. The fault may be partly that of Keynes (of the Treatise), but if so, Keynes was definitely guilty of an error of logic and not only of a badly chosen definition. (Kahn to Harrod, 1 November 1934)

Kahn went on to provide “the two main arguments for the new definition of saving”:

(a) that it is what is ordinarily meant by saving,
(b) that the trusim “saving = investment” points to some important truths, e.g.
(i) investment is always self-financing: there need never be any question of “where the money comes from” (Cf. my “Mr. Meade’s relation” of my article on “Home investment and Unemployment” and Meade’s own book). “Savings equal investment” sums up all this stuff in three words.
(ii) All reference to “forced savings” etc. are meaningless.
(iii) It makes no difference what part the banking system is playing in supplying credit or taking charge of hoarded funds.
(iv) The rate of interest cannot be determined by the “supply and demand of savings.” (1 November 1934)

Kahn also argued in favor of the “common sense” definition of saving in trade cycle theory, introducing to the debate the notion of the multiplier: “As regards the trade cycle, the new definition is also very helpful. Employment is always such as to provide that income out of which people, with their given propensity to save, will in part save an amount equal to investment. A change in investment simply alters output by an amount determined by the ‘multiplier’. The whole thing thus reduces to a study of the causes of changes in the rate of investment” (1 November 1934).

Harrod found Kahn’s reply “paradoxical.” In particular, he was puzzled by the statement that the saving-investment equality implies that the rate of interest must be determined elsewhere: “That is simply frightful, though I have no doubt you could justify it” (Harrod to Kahn, 17

17. Harrod’s own declarations to Kahn are completely unambiguous: on 29 October he expressed his surprise at learning that Keynes was adopting the “common sense” notion of saving: “JMK in his day gave a (different) special definition of savings, which, I gather from your letter, is now thrown overboard” (emphasis added); this indicates that Harrod had overlooked Keynes’s statement expressed in his letter of 31 January 1933, quoted in footnote 12 above. On 2 November he stated that he regarded himself “in a way one of Maynard’s staunchest supporters” and that he had “continued to teach what [seemed to him] right in the Treatise,” but he admitted that he was “out of touch with recent developments” (emphasis added).

18. It is perhaps worth emphasizing that, to the best of my knowledge, this is the only explicit reference to the multiplier in the correspondence that Harrod had with economists and politicians before reading the General Theory.
November 1934). Harrod’s first response to the critical implications for the traditional theory of interest was thus of complete bewilderment; as we shall see (in section 4.3), even after prolonged discussions with Keynes Harrod never accepted the logic of this line of attack. As to the Treatise on Money, Harrod returned to the point that an explanation of the trade cycle required definitions permitting saving to differ from investment:

What I take to be the most important point in the Treatise is this. You define equilibrium rate of interest in some way that has significance for the trade cycle (e.g. that which make \( I = S \) of the Treatise). You then demonstrate that the mechanism of the market does not secure an automatic reversion to equilibrium, when there is a movement away from it. I still teach that and suppose it to be right. I want that stated in a new way that avoids both the paradoxicality and also certain formal defects (e.g. that shown by Meade) of the Treatise. But I do not want new paradoxes introduced, because I scent in them further dangers. (Harrod to Kahn, 2 November 1934)

At this point, it is perfectly evident that Harrod had not been able to grasp the Keynesian doctrine of effective demand from the fragments that had appeared since spring 1933. Moreover, he could not see any practicable approaches to the problem of the trade cycle besides those based on the adjustment between saving and investment. Harrod was thus fully immersed in the tradition springing out from “the logic of the traditional Marshallian approach, [according to which] a gap between saving and investment reflects a disequilibrium situation and is the potential instrument par excellence of economic progress” (Bridel 1987, 126).

The remainder of Harrod’s discussion with Haberler confirms that in spite of Kahn’s supervision Harrod did not understand the sense and the implications of the new notion of saving as regards the causal order in the saving-investment relationship, or the importance of the theory of the multiplier to which Kahn had made a passing reference. The whole debate, in fact, concerned the appropriateness of one definition of terms or the other, and Harrod never attempted to invert the causal nexus pointing from saving toward investment.

4.2. Saving, Investment, and Variations in Stocks

In his correspondence with Haberler, Harrod abandoned the attempts to find a new definition of saving capable of accounting for a divergence from investment and accepted the use proposed by Kahn. However, although he took great pains to explain to his opponent why the commonsense definition of saving implies its equality with investment, Harrod kept flirting with the idea of forced saving. This emerges quite clearly from a letter in which Harrod tried to convince Haberler that the forced saving explanation would not work in the case where new investment was financed by an increase in the velocity of circulation rather than in the quantity of money (Harrod to Haberler, 19 October 1934; see also Harrod’s letter of 1 November 1934).

While arguing in these terms, Harrod attempted to convince Haberler “that if the normal definition of savings is taken, saving = investment in all circumstances” (Harrod to Haberler, 29 October 1934). But it is important to stress that at this point, that is, before receiving Kahn’s letter of 1 November (quoted above) mentioning that “investment is always self-financing,” Harrod was trying to equate saving and investment without considering variations in income; the new investment was matched, by definition, by cuts in private lending and/or in expenditure. Harrod stressed again that saving and investment adjust instantaneously when he next attempted to convince Haberler to abandon the view that “under the ordinary definition of saving and income, differences between saving and investment are possible and that such differences are equivalent to acts of hoarding or dishoarding, of inflation and deflation, to increases and decreases in demand for goods in terms of money per unit of time” (Haberler to Harrod, 2 November 1934). How-

19. In November 1933 Harrod and Meade referred to Kahn’s employment multiplier in one of their writings. However, they were still thinking in terms of prices rather than of quantity adjustments. In a letter (drafted by Harrod and Meade, and signed by eight other economists at Oxford) sent to President Roosevelt in support of the New Deal policies, they stressed that public works, besides directly employing a number of workers, also give employment in the trades producing raw materials and equipment and increase the demand for consumption goods. But this measure was considered mainly for its effect on prices and was indeed considered as “the principal weapon in raising prices,” in accordance with Harrod’s and Meade’s stress on inflation in the last year and a half (Harrod, Meade et al. to Roosevelt, 20 November 1933; see also Harrod, Meade et al. 1932, 1933, and Harrod 1932a, 1932b, 1932c, 1933a).

20. Harrod refused the only alternative he could see, namely, the explanations based on fluctuations of optimism and pessimism (Harrod 1934e; see Besomi 1997b, 183–87).
ever, also on this occasion he did not refer to the principle of effective demand. Changes of income were indeed considered, but only in the sense that investment, being an act of expenditure, immediately constitutes income for the seller of production goods. Harrod ignored the induced effects of the primary expenditure, which indicates that he had not yet digested Kahn's approach in terms of the multiplier connecting saving, investment, and income. The main mechanism equating saving and investment was the variations in stocks that instantaneously compensated for sudden changes in investment (Harrod to Haberler, 5 November 1934). In other words, saving equated investment only by virtue of the definition considering saving as the difference between income (as arising from expenditure) and consumption, and of the definition of investment as including the volume of stocks. Anything that was not immediately spent was pigeonholed as saving, and whatever was not sold was classified as an investment in stocks. Harrod's solution was therefore not in terms of a process but of independent and instantaneous states of the system.

In the end, Harrod abandoned his original position and accepted Kahn's view that the notion of identity between saving and investment makes nonsense of the proposals of banking policy formulated in terms of the equality of saving and investment. It must be stressed, however, that he failed to discuss Kahn's point that the commonsense notion of saving makes nonsense of the concept that saving is brought into equality with investment by changes in the rate of interest. This aspect, however, was discussed a few months later with Keynes while arguing out a draft of the General Theory, the proofs of which were sent to Harrod at the end of June.

22. There is no evidence enabling one to trace back the origins of this idea. However, at least one possible source of Harrod's interpretation must be cited. Hawtrey's discussion of the treatment of saving and investment decisions in Keynes's Treatise on Money (Hawtrey 1932, 346–47). It is worth noticing that, in 1937, Robertson had attributed to Harrod and Hawtrey the "expedient of adjusting the meaning of Amount Invested so as to take account of unintended variations in commodity stocks" (Robertson 1937, 429).

23. Harrod's position does not seem to have changed in the next few months. In fact, in a subsequent attack along the same lines at the end of February 1935, he replied by repeating more clearly his explanation of the instantaneous equalization of saving and investment in terms of variations in stocks (Harrod to Haberler, 28 February 1935).

24. It will be noticed, moreover, that Harrod did not set a limit to the successive act of expenditure and the corresponding increases in income, although under the usual assumptions regarding the propensity to consume being positive and less than unity, the multiplier indicates a convergent process.

4.3. The Multiplier in the General Theory and the Trade Cycle

It is only after having read the General Theory that Harrod appreciated the importance and understood the implications of the multiplier concept for the equality of saving and investment. The first evidence for this occurs, paradoxically, during Harrod's criticism of Keynes's attack on the orthodox theory of the interest rate as determined by the supply and demand for saving.

Keynes argued that since saving equals investment by definition, the rate of interest cannot be used to equate them. Moreover, because the schedules of saving and investment are not independent of each other, the tool of partial equilibrium analysis "breaks in [the classical theory's] hands" (Keynes to Harrod, 10 September 1935, in CW, 13:559). Harrod did not accept Keynes's lines of attack and suggested instead that the traditional doctrine fails not in its logic but in violating its own ceteris paribus assumption as to the level of income. In Harrod's view, the "positive doctrine" of the General Theory, and in particular the multiplier, is sufficient to undermine the traditional analysis. This proves that both saving and investment are related to the level of income so that "to cover the level of income by the cet. par. clause is to refuse to examine the problem":

What you seem to me to have shown is that there are changes in other things which are so relevant and of such overpowering importance, that the old supply and demand analysis had better be put away. You have incidentally shown also that we know very little about the supply schedule of saving, i.e. amount of saving considered as a function of the rate of interest cet. par. which includes the level of income being given. You have further shown that the level of income has an over-riding importance in determining the amount of saving (= amount of investment). You have further shown that the level of income is linked in a roundabout way (and . . . the level of saving in a still more roundabout way) to the rate of interest. And in such a way that the level of income and the rate of interest are indeterminate unless you bring in another equation, which you do in fact, viz. the liquidity preference schedule. (Harrod to Keynes, 1 August 1935, in CW, 13:531–32)

Two important building blocks for the analytical mechanism of the Trade Cycle originate from this understanding of Keynes's theory. On
the one hand, Harrod finally recognized the implications of the doctrine of effective demand, namely, the inversion of the traditional causal nexus between saving and investment and the role of income changes in equalizing them. On the other hand, Harrod found in the General Theory an approach to the problem of determining the level of activity in terms of schedules of propensities to save and to invest; Harrod thought that, in this respect, Keynes's analysis was not much different from the classical one, although of course the respective schedules are "determined by something different" (Harrod to Keynes, 21 August 1935, in CW, 13:545): "The demand schedule for saving is a different thing from the propensity to save. (Now don't accuse me of saying here that interest is determined by them. I merely re-iterate that thinking saving the same as investment doesn't itself make nonsense of the view that the amount of it is determined by different things: a demand schedule and a supply schedule.)" (Harrod to Keynes, 30 August 1935, in CW, 13:554).

Harrod himself was soon going to reinterpret the traditional approach in terms of the determinants of saving and investment decisions and to put it at the heart of his dynamic mechanism. In the Trade Cycle, both the equilibrium and disequilibrium movements of the economic system were determined by the interaction of the consequences of the decisions to save and to invest, the former depending on the level of income and the latter on its rate of change. Harrod was thus ready to pursue the inquiry into the trade cycle along the line of reasoning based on the saving-investment adjustment. But in contrast to his previous approach, he specified that these two magnitudes are always and necessarily equal, in spite of resulting from the independent decisions of different people based on distinct motives. Accordingly, he referred to changes in income instead of variations in prices and in the rate of interest (see Besomi 1997b). Later, he revised his theory by shifting the emphasis toward the effects of the interplay of independent saving and investment decisions, therefore giving full weight to the role of undesired changes in the volume of stocks (Harrod 1939; see Besomi 1995).

In the Trade Cycle, Harrod was thus finally able to recognize his foreign trade balancing mechanism as belonging to the family of the multipliers, and indeed he integrated it, with the investment multiplier and the accelerator, as one of the "dynamic determinants" affecting the variations in aggregate income.

5. A Shift of Perspective

The example examined in these pages illustrates how difficulties extraneous to the purely analytical implications of a concept can hinder its diffusion, even under the most favorable conditions. In particular, the introduction of the investment multiplier involved replacing old notions and ways of thought with new ones and rearranging the conceptual framework. Although the multiplier idea had been available since 1931 (but Keynes saw an early draft of Kahn's article in the summer of 1930), Keynes found the concept useful only when he could couple it with the theory of effective demand. The development of his intuition that the theory of employment should be examined in terms of the demand for output as a whole required two fundamental steps. The first, to invert the causal relationship between saving and investment; the second, to find a mechanism capable of explaining how investment dragged saving along with itself.

Harrod was certainly positioned to understand the latter aspect, since the multiplier performs this function in strict analogy in the cases of exports and imports and of investment and saving. But the step he failed to understand, until he read the General Theory, was the interpretation of investment as the cause of saving. To understand this passage required a shift of viewpoint: the idea that abstinence from consumption is necessary to allow investment reflects the standpoint of the individual entrepreneur, who sees the money he is about to invest as coming either from his own savings or from the savings of those who buy his securities. On the contrary, the idea that total income depends on expenditure relies on the diffusion throughout the economy of the induced effects of the original change in expenditure; it is therefore only plausible if one looks at the system as a whole. Inverting the saving-investment relationship thus requires a switch from the individual to the collective viewpoint. This, however, was not a logical or analytical difficulty for Harrod, whose foreign trade multiplier accounted for the spreading of local causes to produce consequences pervading the
whole economic system. On the grounds of this reasoning, he himself had introduced a shift of emphasis, from the traditional belief that changes in income are determined by the balance of trade to the view that exports cause a cascading series of increases of income until the level of imports wipes out the positive balance.

The problem therefore lay elsewhere. Harrod was not technically incapable of reversing the traditional relationship between saving and investment. But he was so deeply immersed in the orthodox view of the relationships between saving and investment that he simply could not piece together the available isolated fragments of Keynes’s change of perspective. Only when he had in front of him the whole opus could he perceive that it implied a radical reorganization of the conceptual framework of economics. As soon as Harrod understood this, all the pieces fell together, and the multiplier suddenly made sense to him.

Since his first reading, Harrod consistently interpreted the General Theory as a rearrangement of the orthodox pieces of analysis. On 1 August 1935, he wrote that Keynes had shown, in contrast to traditional theory, that saving essentially depends on income rather than on the rate of interest, and the liquidity preference schedule supplied the missing equation permitting the determination of the rate of interest (in CW, 13.531–32). On 30 August Harrod represented the determination nexuses as “reconstructed” under Keynes’s criticism to the orthodox approach (555). Later, he took up the same point with Robertson, insisting that “it is a big and important fundamental reconstruction” (7 October 1935). Finally, he developed the theme in “Mr. Keynes and Traditional Theory,” a paper he read in October 1936 before the Oxford meeting of the Econometric Society (Harrod 1937; see, for a comment, Besomi 1993–94, 1997a, 105–6).

Interestingly enough, Keynes commented on this paper that Harrod did not “mention effective demand or, more precisely, the demand schedule of output as a whole, except in so far as it is implicit in the multiplier” (Keynes to Harrod, 30 August 1936, in CW, 14.85). Indeed, Harrod’s interpretation of both the multiplier and effective demand was somewhat reductive. Harrod was not much interested in the determination of aggregate output (and employment) but in the dynamic problem of its rate of change. Accordingly, he stressed the causes (in the Trade Cycle) or the consequences (in the 1939 “Essay”) of the interaction of the decisions to save and to invest, in either case taken as functions of the level and the rate of change of income: the multiplier and the acceler-erator, respectively. For his purposes, Harrod only needed the multiplier as a function describing the level of income as depending mainly on the amount of investment (= the amount of saving). Accordingly, he interpreted it as “merely a disguised form of the ordinary supply schedule of free capital, but with the rate of income treated as a variable” (Harrod 1937, 77–78).

6. Conclusion: The Circulation of Concepts

We have seen that for the investment multiplier to be understood and subsequently integrated into Harrod’s own framework of concepts, it had to be seen in its whole context and later modified in light of Harrod’s newly defined context. But besides experiencing the problems faced by the recipient of the new Keynesian concept, Harrod also considered the other side of the coin: the problems relating to the diffusion and understanding of a new system thought. He was well aware of the effort that both the proposer and the recipient of a new concept must make to permit its understanding and dissemination. Although he was still longing to know more details about Keynes’s new book, Harrod insisted with Kahn on the necessity that the new theory should be expressed in a more communicable form:

You have got to consider not only your pupils, who are like wax in your hands, but also the main body of economists, who are working perhaps at different problems and can only <> new theorems if they are couched in terms consonant with the accepted definitions and categories of thought of, shall I say, equilibrium economics. You may blow upon equilibrium economics, on the ground that it is partly a vain show, but economists are not going to give up their at worst harmless interest in it at anyone’s behest. . . .

If you are talking these things over with Maynard, I wish you would mention . . . the point of view which has regard to the desirability of making concessions to concepts, habits, forces of re-adjustment etc. of an audience other than your Cambridge pupils. (Harrod to Kahn, 2 November 1934)


27. I have discussed these themes in more detail in Besomi 1991, 1992.
And again:

I want your and Maynard’s economics of full employment expressed in terms which are used in marginal analysis, so that it can be fitted in to the corpus of economic theory such as it is.

I think the equilibrium economists wrongly believe that they have demonstrated that the system tends to move, apart from rigidities, to a full employment position, and that you can only disabuse them of this and impel them to take up your doctrines if they are expressed in the same language as theirs. (Harrod to Kahn, 17 November 1934)

Harrod expressed similar considerations to Keynes, whose ideas on the utility of controversies in economics he never accepted, advising him to make the passage from the unfamiliar to the familiar easier (CW 13:555–56; see also 533–34). In correspondence with Robertson, Harrod compared Keynes’s attitude with that of “Ricardo striving to get something definite, clear-cut and comprehensible; and making attacks on all and sundry, as Ricardo did on Adam Smith, Malthus, Say etc. sometimes unfairly, who stand in the way of his system.” Harrod feared “that too few people will understand it” and anticipated that he could “ultimately feel it my duty to take up my pen and try to make it easy” (Harrod to Robertson, 7 October 1935; see also Harrod 1937, 85). In this context, easy meant reducing Keynes’s theory to common parlance with tradition. The result was Harrod’s paper “Keynes and Traditional Theory,” which aimed to show that Keynes had only reshuffled the components of the orthodox approach without really effecting a revolution.

Harrod thus experienced the roles of both the recipient and the disseminator of Keynesian theoretical innovation. In the latter function, he traced backward the same steps he followed when coming to grips with the investment multiplier. To appreciate its significance and implications, Harrod had to examine the multiplier in the context of the Keynesian conceptual reinterpretation of the relationships between variables. Then, having recognized the heuristic value of the Keynesian approach, Harrod expounded it in the same way as he understood it, namely, in terms of a rearrangement of old pieces. This approach reflects Harrod’s own learning process, as well as his feeling that the battle for the circulation and acceptance of Keynesian ideas had to be fought on the rhetorical front: Harrod always thought that Keynes’s attacks on traditional theory, besides not being entirely justified, also diminished the effectiveness of Keynes’s work (Harrod to Keynes, 1 August 1935, in CW, 13:533). In opposition to Keynes’s “Ricardian” attitude, Harrod thus chose a more “Marshallian” perspective: in his exposition of the General Theory, he was “seeing the good in and synthesizing everything” (Harrod to Robertson, 7 October 1935).

References

Banca Nazionale del Lavoro Quarterly Review 42 (September):345–58.


28. Harrod’s conception of Keynes’s rearrangement of the “old pieces” was also functional to his own theory of the cycle, which consisted of the same pieces. Harrod’s article thus fulfilled the function of relating the doctrine exposed in the Trade Cycle to both Keynes and the tradition. See, for a discussion, Besomi 1993–94.


### Unpublished correspondence

The following abbreviations are used: A = autograph; Cc = carbon copy; I = initialled; L = letter; N = note; S = signed; T = typescript. DHR = Robertson Papers, Trinity College, Cambridge; FDR = Franklin Delano Roosevelt Library, New York; GH = Gottfried Haberler Papers, Hoover Institution, Stanford; HP = Harrod Papers, Chiba University of Commerce, Ichikawa, Japan; JMK = Keynes Papers, King’s College Library, Cambridge; KHLM = Keynes and Harrod—Letters and Memoranda, University of Tokyo; KP = Kahn Papers, King’s College, Cambridge; LoN = League of Nations archives, United Nations, Geneva; MP = Meade Papers, British Library of Political and Economic Science, London; NKP = Kaldor Papers, King’s College, Cambridge.

Haberler, G.


Harrod, R. F.

— to Haberler, 19 October 1934, TL copy, in HP IV-395-422 and LoN 10B:12653/12653.

— to Haberler, 29 October 1934, ALS, in GH box 66. TCc in LoN 10B:12653/12653.


— to Haberler, 5 November 1934, ALS, in GH box 66. TCc transcription in HP IV-395-422; copy in NKP NK3/5/7–10 and LoN 10B:12653/12653.

Harrod, R. F.

- to Roosevelt, 20 November 1933, TLS, in FDR, file FDR, PPF 182, box 1.

Kahn, R. F.

- to Harrod, 24 March 1932, TLS, in HP IV-586-668b.
- to Harrod, 18 April 1932, TLS, in HP IV-586-668b.
- to Harrod, 22 October 1934, TLS with autograph corrections in HP 4-586-668b.
  Cc without corrections in RFK 13/57/83-86.
- to Harrod, 28 October 1934, ALI, in HP IV-586-668b.
- to Harrod, 1 November 1934, ALI, in HP IV-586-668b.
- to Meade, 14 June 1932, TLS, in MP 2/5(7-9).

Keynes, J. M.

- to Harrod, 27 January 1927, TLCcl, in JMK CEB/17; photocopy of the Cc in HP II-200.
- to Harrod, 26 December 1932, ALS, in HP II-25.
- to Harrod, 16 February 1933, TLS, in HP II-29.
- to Harrod, 25 February 1933, TLS, in HP II-30, Ccl in JMK A/33/1/127.
- to Harrod, 28 February 1933, TLS, in HP II-31, Ccl in JMK A/33/1/130.
- to Harrod, 2 March 1933, TLS, in HP II-32, Ccl in JMK A/33/1/135.

Meade, J. E.

- to Harrod, undated note [November 1932], AN, in HP IV-745-767/1.
- to Harrod, 30 November 1932, ALS, in HP IV-745-767/2.

Robertson, D. H.

- to Haberler, 1 November 1934, TLS (transcription), in LoN 10B/12653/12653.
- to Harrod, 6 April 1932, ALI, in HP IV-990-1069d/8.
- to Harrod, 9 September 1932, ALS, in HP IV-990-1069d/13.
- to Harrod, 31 December 1932, ALS, in HP IV-990-1069d/15.
- to Harrod, 3 April 1933, ALI, HP IV-990-1069/17.
- to Harrod, 5 April 1933, ALI, in KHM 208-215.

Robinson, J. V.

- to Harrod, 18 March 1933, ALS, in HP IV-1089-1107.