Title: Saving is the Accounting Record of investment

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ABSTRACT.

This paper argues that saving is not a behavioral relationship as is widely believed, but is merely the accounting record of investment. Neither income nor interest rates, nor anything else, has to adjust to assure equality between saving and investment. Saving is the measure of investment. The implications of this realization for macroeconomic modeling and policy analysis are profound.
Several proofs are developed to show that S = I is an accounting identity.
The simplest is :

1) Y = C + I
2) S = Y - C or
2a) Y = C + S
3) I = S

Another is that since S = Y - C and S = I, this implies that changes in how Y, C, and I are defined will cause S to change, completely independent of any volitional behavioural change on the part of "savers"
A third is that if saving is defined directly, as what it is, the change in net worth, rather than what it is not, income not consumed, it becomes immediately apparent that saving is merely the accounting record of investment. In the national balance sheet, total financial assets equal total financial liabilities, and so cancel out. The change in total tangible assets is defined as investment. The change in net worth is defined as saving. Saving may thus be seen to be the accounting measure of investment
The argument is made that sloppy National Income Accounting is responsible for the apparent inequality of S and I when Government and rest of the World are introduced. The root of the confusion is due to the use of the word "save" with its strong transitive and volitional meanings, for an economic accounting term with a different meaning. The notion that since individuals can decide how much they will save, total saving is determined by aggregate saving preferences is shown to be a fallacy of composition. When there are no financial assets, and all economic units must run a balanced budget, it is shown that the two terms coincide. The classical vision only applies for Crusoe economies. Whenever new investment is deficit-financed by new bank credit, the saving becomes nonvolitional. And whenever individual saving is addressed to the accumulation of previously-produced, or nonreproducable assets, the result is a fall in AD. Volitional saving does exist, but it is identical with the volitional decision to reduce consumption spending, and so AD.
Finally it can be shown that, providing the CB pursues an enlightened monetary policy, and sets the ST interest rate at a sufficiently low level, so that investment spending has risen to a level sufficient for full employment AD, greater saving propensities may be shown to be a social virtue, as the classicists long maintained, and not a social vice, as currently viewed by many Keynesians.

NOTE This paper has been written, and I am about to submit it to the AER. But I am not optimistic they will take it. Just for your information, I am a Post Keynesian, and firmly wedded to the notion of endogenous money.