Saving: Pool or Residual?

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Austerity policies have defined the economic and political landscape of Europe since the break of the last economic crisis. These policies claim to promote long-term economic growth by promoting domestic savings so that savings can lead to investments and economic growth. Yet, saving-investment equality has always been a highly disputed topic in economics. Though various economists from different background accept this equality *ex post*, the causality *ex ante* is an area of dispute: the main issue, at least since Keynes published *General Theory*, whether investments lead to savings or *ex ante* savings are responsible for investment. This difference has serious macroeconomic policy outcomes; Feldstein-Horioka Puzzle (Feldstein and Horioka, 1980), Glut of Savings (Bernanke, 2005) and finally austerity programs have all built on the presumption that *ex ante* savings are responsible for investments and economic growth. However, heterodox economists, especially Post Keynesians, have gathered an immense literature with theoretical and empirical studies.

The mainstream views depend on the notion that households, government, firms and foreign savings take place first and these are used to fund investments. In this understanding, households or firms decision to save at the micro level is assumed as responsible for national savings at the macro level. However, these studies, especially empirical ones, do not tell how national savings data is compiled and how micro saving decisions lead to national savings at the macro level. A close study of saving data reveals that national savings data is compiled at the macro level *ex post* as simple national income accounting dictates. And there is a big gap between savings at the micro level and national savings and this gap is estimated as a *residual* so that savings at the micro level and macro level can fit to each other.

In this study we will analyze how savings data is compiled according to *System of National Accounts* (SNA), the international guideline for national income accounting since 1946, and U.S. Flow of Funds Accounts. Both sources reveal that an economic unit, a household, a government or a national economy is not constrained by savings; and each unit can always spend more (or less) than its income which in turn lead to an increase in liabilities (assets). (This methodology is not new for Post Keynesians, especially to those using stock-flow consistent approach.) According to SNA, micro level savings are only "*balancing items*" and the differences between savings at the micro level and national savings are again balanced with another item; i.e. *consumption of fixed capital* (CFC). The CFC, by definition, is estimated according to investment data and in many economies it is the largest component of national savings.

As a result, many economists are using national savings data to argue savings are responsible for investment, yet the data they use is compiled *ex post* through national income accounting and investment is the biggest component there. This study will try to show that there is no *ex ante* savings data independent of investment and national income which means empirical studies that starts with *ex ante* savings is flawed from their start.