Real Savings is NOT the Accumulation of Money!

That's correct!
Most people have a mindset that savings represents a buildup of money, or more specifically, an inventory accumulation of Goods or some financial "paper" assets that will be returned **plus** interest, yield, dividends, or capital gains later. This paradigm dates back in part to the "piggy bank" mentality where it was encouraged to accumulate a "batch" of your wealth for a "rainy day", large purchase, or retirement. That is not the "real" case!

Let's explore what happens in the "real" economy. First we recognize that "real wealth" is only created from work and natural resources. Fiat currency (our U.S. dollar) and debt securities (e.g. bonds) are not "real wealth"; at best they can only *acquire* "real wealth". Ultimately, it's not the money that we all want as we live our lives; it's the real "future stream of goods and services" created from work and natural resources. i.e. we ultimately want food, shelter, toys, and etc., **not** "paper" assets. **Only Businesses** produce that "stream of goods and services".

The "Austrian Enginomics" perspective offers a very different paradigm. *Savings are created from a decision to delay consumption.* The *result* of "real" savings accumulation is the saver will gain *direct or indirect ownership or control of a business*. By saving, the "time preference" for consumption has been delayed because you are anticipating full repayment **plus** interest, yield, dividend, and/or capitalization increase later. What really transpires when savings increases (i.e. *reduced consumption)* is companies direct a resource shift from the actual production of goods and services to activities including R&D, preservation of existing Capital Equipment (maintenance), or fabrication and implementation of new Capital Equipment or facilities. This "resource shift" enables greater productivity increases, thus increased real wealth generation capability for the future. If savings decreases, the opposite occurs. Bottom line… There is no buildup of "goods" inventory or "paper assets" that represent real wealth.

Since all of the future "stream of goods and services" we ultimately seek are produced with natural resources and labor, let us explore the labor component in detail. The "Labor Resource Distribution" graph below *conceptually* models the following:

Graph Description:

- Every minute of every waking hour of every "non-minor" person is captured in the graph illustrated as "Average Hrs/Day"!
- All of the time described above fits into only eight activity categories.
- The red bars indicate "base" human activity levels from which to compare changes that might arise from government policy variations or other.
- The blue bars represent the new human activity level within each category when policy changes are modeled.
- The blue bars with white cross-hatching and their adjacent red bars represent all labor activity in businesses (i.e. the first five categories on the graph).

So, What are We Modeling?

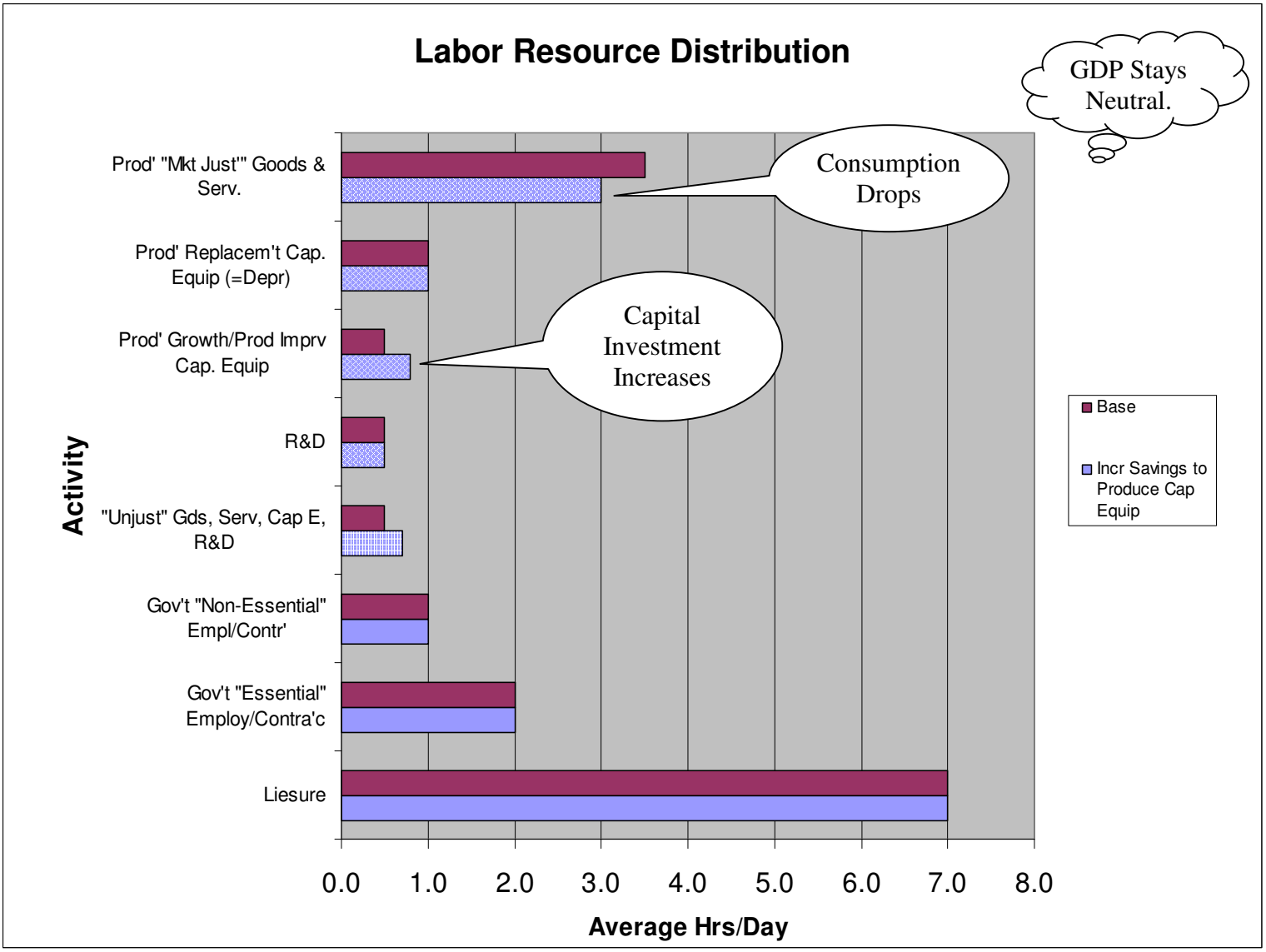
- We are modeling a "real" change example that can happen when people increase savings!
- First, if people save more, they are buying *fewer* goods and services by default. Therefore, the human activity within the "Prod "Mkt Just" Goods and Serv." (Production of Market Justified Goods and Services) category reduces. i.e. Within the average business, there is less labor utilized to actually produce Goods and Services (G&S).
- Consequently, labor will actually increase in one or more of the other three categories:
    - Prod' Replacem't Cap. Equip (= Depr); (Production of Replacement Capital Equipment to replace current depreciating equipment)
    - Prod' Growth/Prod Imprv Cap. Equip; (Production of Growth or Productivity Improvement Capital Equipment)
    - R&D; (Research and Development)
- The graph illustrates an increase in the second category noted above. An example would be a company redirecting production labor to build a new improved-efficiency production machine.

The Result?

The result of "saving" in this example is the enhancement of our business "economic engine" that now has a new improved-efficiency machine. In economic terms, we have expanded our capital goods base rather than produce consumable goods or services. *Saving, therefore, enhances the efficiency and productivity of our aggregate "economic engine" to improve our general per capita standard of living long-term at the expense of enjoying consumption immediately*. Thus, saving in real terms is not a buildup of financial assets ("paper") or goods inventory. It is the expansion and/or improvement of Capital Goods and Skill Sets within our businesses. When a part of the proceeds from your work effort (savings) is invested rather than spent, the proceeds will find their way either directly (stock purchase) or indirectly (savings account, bond purchase, or etc., that effectively and eventually becomes an investment) into a business.

Key Assumptions:

- Business inventory turns do not change.
- Any excess labor will be redeployed performing within one of the five Business activity categories.
- Any economy is very dynamic, experiencing constant labor moves. Our focus is upon the long-term impact of increased saving, and learning what really changes in the "real economy". For example, there would clearly be a labor resource shift, if consumption suddenly and measurably falls. However, as that labor is assimilated back into the work force we will become economically stronger in the long run.
- The " "Unjust" Gds, Serv, Cap E, R&D" (Unjustified Goods, Services, Capital Equipment, Research and Development) category in the graph represents labor that is employed by a business that would be losing money in a "natural interest rate" modeled condition. Some labor rightfully always exists in this category. We recognize it separately, because policies that encourage a disportionately high percentage of labor here create a condition that must painfully reverse in time.


Labor Resource Distribution
GDP Stays Neutral.
Consumption Drops
Capital Investment Increases
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Prod' Replacem't Cap. Equip (=Depr)
Prod' Growth/Prod Imprv Cap. Equip
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Liesure
Activity
Base
Incr Savings to Produce Cap Equip
0.0
1.0
2.0
3.0
4.0
5.0
6.0
7.0
8.0
Average Hrs/Day