to hand it back, it must, in consistency, be charged as "outgo", and the net result on his income is simply a cancellation. This procedure reveals clearly the fact that the accumulation is not income. It is increase of capital. All of this is elaborated in my paper, "Are Savings Income?"*, and illustrated by diagrams.

DEPRECIATION IS NOT OUTGO

Not only do many people thus wrongly include savings in income but they also often exclude from income any trenching on capital "spent", *i. e.*, used as income.

If it were true that income could never trench on capital, we could not reckon a laboring man's wages or a pensioner's annuity —each a terminable series—as income without first deducting a premium or sinking fund sufficient to provide in perpetuity for the continuance of the income after the death of the laborer or pensioner. For the capital value of a terminable annuity must depreciate. If the annuitant or laborer should *actually* set aside such an annual sum as to maintain the capital value of his property unimpaired, we should be quite justified in considering the net sum, and not the gross sum, as income; for then the reinvestment *actually* enters our books as a cost item. But it surely makes a difference whether these "sinking funds" or "premiums" are actually paid or merely reckoned.

Bookkeeping depreciation is not outgo. The repairs or betterments for which the depreciation is supposed to provide are the true outgo†. But, for practical convenience, depreciation may be presumed to be the graduated annual equivalent of the occasional repairs, replacements or betterments for which that depreciation is designed to provide, a sort of "accrued" repairs. Similarly "accrual" may be a practical convenience as a sort of average of actual income.

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* *Publications of the American Economic Association*, April, 1908. I suspect that a subtle confusion between physical capital ("stock") and capital value underlies some of the errors in treating savings. Savings is primarily a value concept but many think of it rather as physical accumulation. Others would apparently distinguish between what they think of as physical saving and mere appreciation of value. A stock or bond appreciates in value because of prospective income but that does not seem to these people to be savings analogous to the rolling up of a savings bank account and still less analogous to the acquisition of a new farm or the erection of a new factory, or the increase in value of a growing forest.
But these are "distinctions without a difference" so far as the present problem is concerned. This will be understood by any careful reader of my *Nature of Capital and Income*, or *Rate of Interest*, or Böhm-Bawerk's *Capital and Interest*, or *Positive Theory of Capital*. In every case the essential element is not physical growth but the appreciation of some discounted value.

† From what has been said it should be clear that savings or capital appreciation do not add to net income nor capital depreciation subtract. During a year a man may have $50,000 income and $150,000 accretion of capital but the total gain, or earnings, of $200,000 is not all income any more than all capital.