The Corporate Savings Glut…
Gruber and Kamin

Discussion

Florence, 18 June 2015

Secular Stagnation, Growth, and Real Interest Rates

Catherine L. Mann
OECD Chief Economist
Real investment seems to be weak
Is there a puzzle? Is it the GFC?

- **Wrt aggregate demand?**
  - Yes, if estimated to 2001 as the basis
  - No, if estimated to 2006 as the basis

- **Wrt balance sheet caution/cash hoarding?**
  - No.. Regardless of 2001/2006
  - Distributing profits to shareholders instead

- **Is there a puzzle?**
  - Return to shareholders; no good ‘real’ opportunities

- **Is it the GFC**
  - No… behavioral shift before GFC
• **Use of integrated macro accounts**
  – Earnings and expenditure side (real) vs. asset and liabilities side (financial)
    • hypotheses are both real and financial….

• **Coverage**
  – US benchmark (longer data)
  – Panel for G7
Method commentary (2)

- Assuming given profits…hum…

- What is the allocation between
  - Investment (future profits)
  - Dividends/buybacks
  - Bolstering the balance sheet
    - (equation 4)
Considerations

• Coverage: Rest of world?
  – to which the missing investment might be going?
  – from which profits might be earned?

• Data
  – Macro, but global
  – Firm-level data

• Alternative conclusions
  – Aggregate demand puzzle is incomplete
  – Globalization of investment opportunities,
    • not secular stagnation, rather
  – GFC/QE shorten time horizon
Is Investment weak?... Just Housing?

OECD Economic Outlook, June 2015
Is Investment weak? Lags previous cycles

Business investment in different cycles
Cyclical peak in OECD real business fixed investment=100
(date of peak indicated)

Macro, only business capex

Source: June 2015 OECD Economic Outlook database.

Sluggish investment means:

- Slower potential output growth
- Labour scarring
- Stagnant incomes, rising inequality
- Slower technology diffusion from innovation frontier

OECD Economic Outlook, June 2015
Is Investment weak? Accelerator plus

Macro, but global and structural

63. The testable equation takes the following form:

\[ \Delta k_t = c + \gamma k_{t-1} + \sum_{i=1}^{n} \beta_i x_{i,t-1} + \mu \Delta k_{t-1} + \sum_{i=1}^{n} \delta_i \Delta x_{i,t} + \sum_{j=1}^{m} \theta_j z_{j,t} + \varepsilon_t \]  \hspace{1cm} (6)

where \( \gamma k_{t-1} + \sum_{i=1}^{n} \beta_i x_{i,t-1} \) gives the long-run relationship including the \( n \) long-term covariates, \( \sum_{i=1}^{n} \delta_i \Delta x_{i,t} \) are the dynamic terms of the long-run variables (output, UCC and ETCR) and \( \sum_{j=1}^{m} \theta_j z_{j,t} \) is the additional set of \( m \) covariates entering the short-term dynamics.

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<td>d(log capital stock)(-1)</td>
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<td>d(log real output)(-1 to -3)</td>
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<td>log economic policy uncertainty (-1)</td>
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OECD Economic Outlook, June 2015
Is Investment weak? Accelerator plus Macro, but global and structural

Estimated impact of shocks on investment
Percentage change after 5 years

1. 16% reduction in OECD index of regulation in energy, transport, communications (ETCR) over 5 years, equivalent to the average reduction among 15 OECD countries during the period 1993-2008.
2. Two-standard-deviation reduction in policy uncertainty corresponds to a reduction.
Globalization, Investment, and Corporate Payout Strategy opportunities

Deniz Civril (and me sort of), Census RDC, 4 years to get permission, now underway

Adapted from Milberg and Winkler (2009). $Y^D$ = demand for output and $L^D$ = demand for labour.
Global investment opportunities,

A. Share of US MNE group Investment performed by MOFAs

B. Location of capital Investment by US MOFAs

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Global investment opportunities,

C. Overseas manufacturing subsidiary investment as a share of domestic business investment in Japan

D. Location of fixed capital investment by Japan manufacturing overseas subsidiaries

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Global opportunities – micro data

Global opportunities – micro data

Figure 10. ROE minus the cost of equity

Final observations

• Obviously an important topic
• Corporate micro data seem the way to go
  – Caveat on how much it actually reveals
• Global dimension is key
  – Caveat on corporate data
• Time discount… how to get at?
  – Long-term for real vs. short-term for financial
  – Uncertainty measures?