Investment: A Good Thing to Do?

**Investment and Growth: 22 Industrialized Countries**
Source: Penn World Tables

- **Is the U.S. investing enough?**

Source: Federal Reserve Economic Database

- Since depreciation is relatively constant at about 12%, most of the change from a fall in investment comes from a fall in net investment. Similarly, most of the change from a rise in investment comes from a rise in net investment.

i.e. Small changes in investment have a big effect on net investment!
The Model

Fin. Capital Inflows = M - X

S (priv. Savings)

Wage

labor & other resources

Loanable funds

Rest of World

Foreign Exchange Mkt

Net of transfers

Government

T (Taxes)

S (priv. Savings)

Households

Goods and Services Mkt

Business

M (net of transfers)

C (consumption)

Yen

$US

Foreign currency
Does the Model Fit?


Source: Federal Reserve Economic Database

- Net Exports
- Net U.S. Investment Abroad

Correlation Coefficient = .973
(97.3% ... pretty darned good fit)


(Each dot is one quarter, Source: Federal Reserve Economic Database)

Correlation Coefficient = .93
(93% ... pretty darned good fit)
Borrowing and Savings: The Primary Causes


Source: Federal Reserve Economic Bulletin
Quarterly values, annual rates, on & off-budget combined


Source: Federal Reserve Economic Database
The Results: Trade Deficit & Capital Inflows &/or Low Investment


Source: Federal Reserve Economic Database


The Short-Run

(Each dot is one quarter. Source: Federal Reserve Economic Database)

"Good" Deeds: Private Savings + (T-G) (% of GDP)

"Good Outcomes": I + ∆∆∆∆ Net U.S. Worldwide Invest. Position (% of GDP)

Correlation Coefficient = .85
(85% ... pretty darned good fit)