



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



Method commentary (1)

- 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)



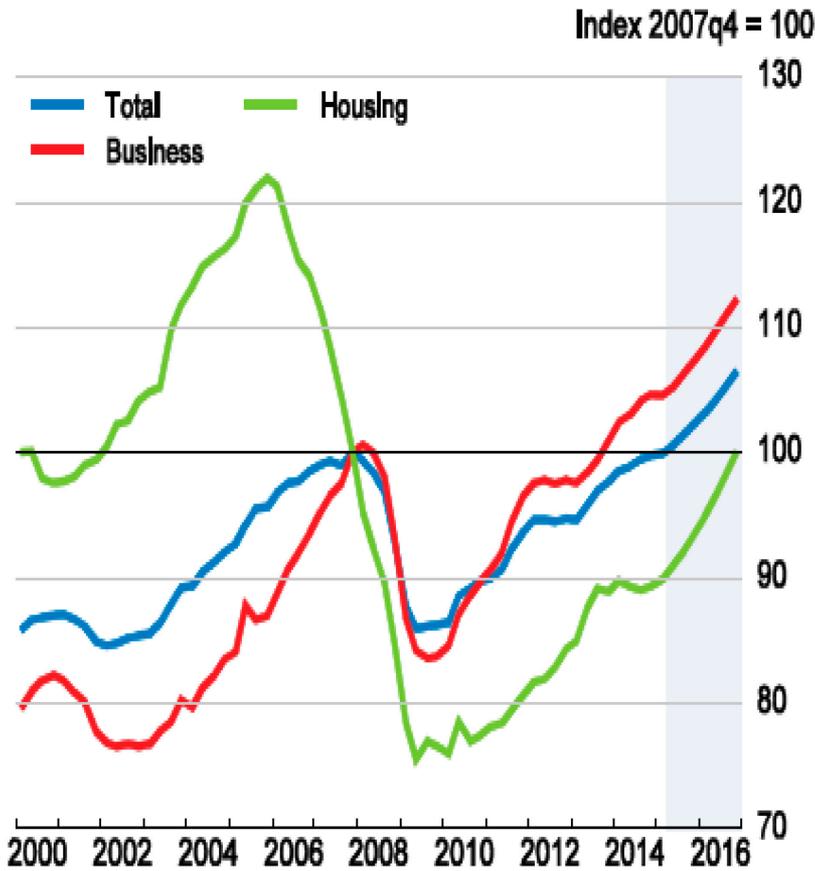
Considerations

- 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

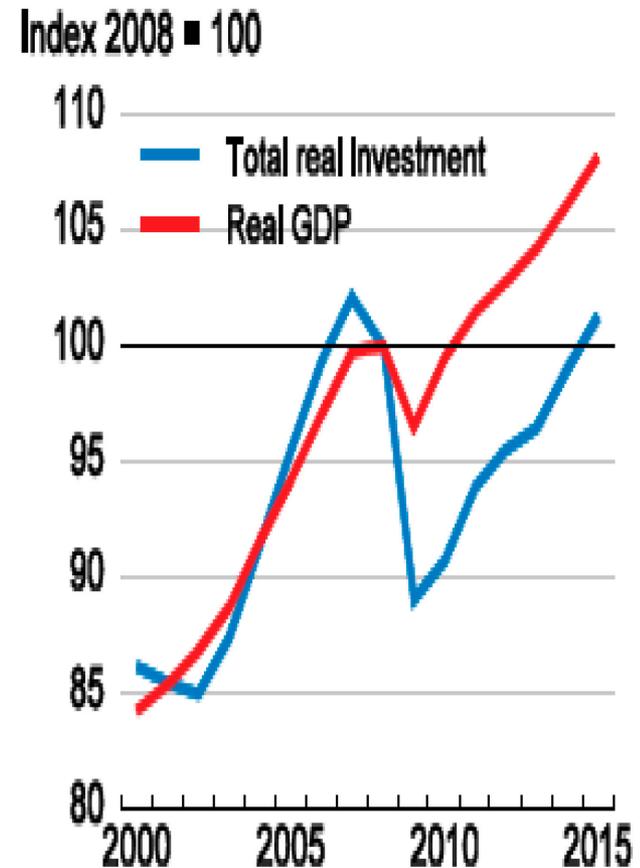


Is Investment weak?... Just Housing?

B. OECD² investment



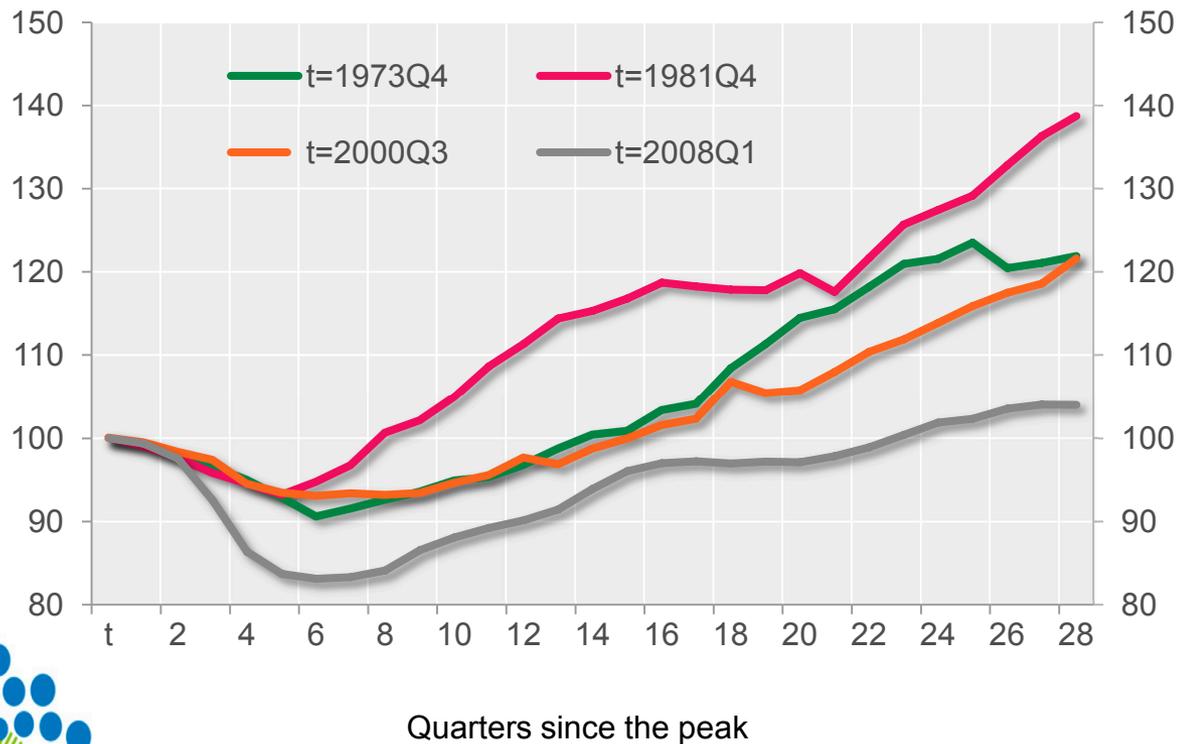
OECD



Is Investment weak? Lags previous cycles

Business investment in different cycles

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



Sluggish investment means:

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

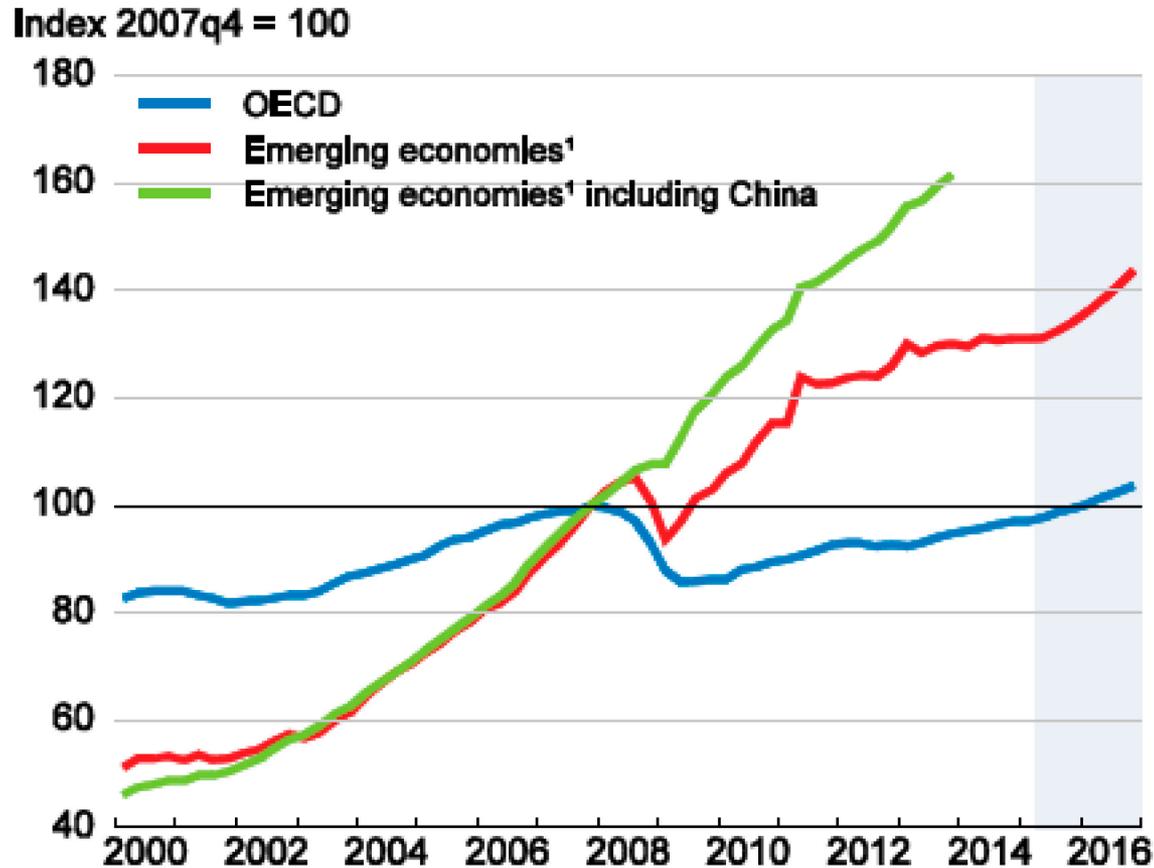
Source: June 2015 OECD Economic Outlook database.





Is Investment weak? Only in OECD..

A. Total investment





Is Investment weak? Accelerator plus

63. The testable equation takes the following form:

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

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.

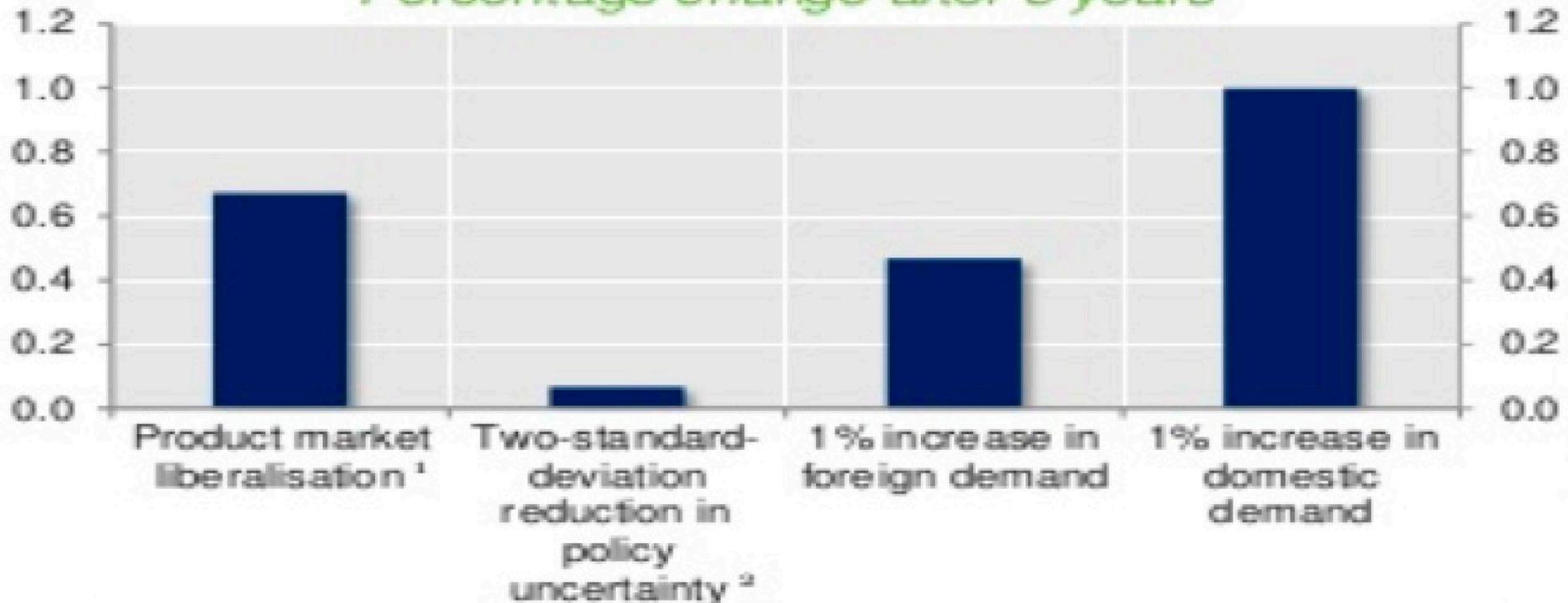
	1985	1987	1993	1985	1987	1993	1985	1987	1993	1985	1987	1993
	2013	2007	2013	2013	2007	2013	2013	2007	2013	2013	2007	2013
financial constraints (-1)												
<i>coefficient estimates adjusted for the lagged dependent variable: coeff(adj)=coeff(unadj)/(1-coeff(lagged dependent))</i>												
c	-4.E-05	1.2E-04	-1.2E-05	0.001	0.001	0.001	4.2E-06	1.6E-04	3.7E-05	2.0E-04	0.001	2.E-04
error correction term	-0.033	-0.033	-0.024	-0.042	-0.044	-0.030	-0.032	-0.032	-0.023	-0.011	-0.007	-0.010
d(log capital stock)(-1)	0.960	0.947	0.950	0.950	0.934	0.947	0.958	0.944	0.950	0.919	0.875	0.902
d(log real output) (-1 to -3)	0.467	0.404	0.309	0.249	0.217	0.253	0.462	0.397	0.333	0.264	0.216	0.191
d(log foreign output) (-1)	0.353	0.112	0.339	0.243	-0.001	0.244	0.302	0.106	0.299	0.221	0.084	0.213
cpi_volatility(-1)	-4.E-04	-2.6E-04	-4.0E-04									
cpi_volatility(-1)^2	-8.E-06	-3.8E-06	-6.0E-06									
log economic policy uncertainty (-1)				-0.002	-0.002	-0.002	-0.002	-0.001	-0.002			
d(log global uncertainty) (-1)										-2.7E-04	-3.5E-04	-2.E-04
financial constraints (-1)												
No. obs	1634	1253	1243	1230	890	1099	1644	1260	1252	805	609	660
No. of countries	15	15	15	15	15	15	15	15	15	8	8	8



Macro, but global and structural

Is Investment weak? Accelerator plus

Estimated impact of shocks on investment *Percentage change after 5 years*

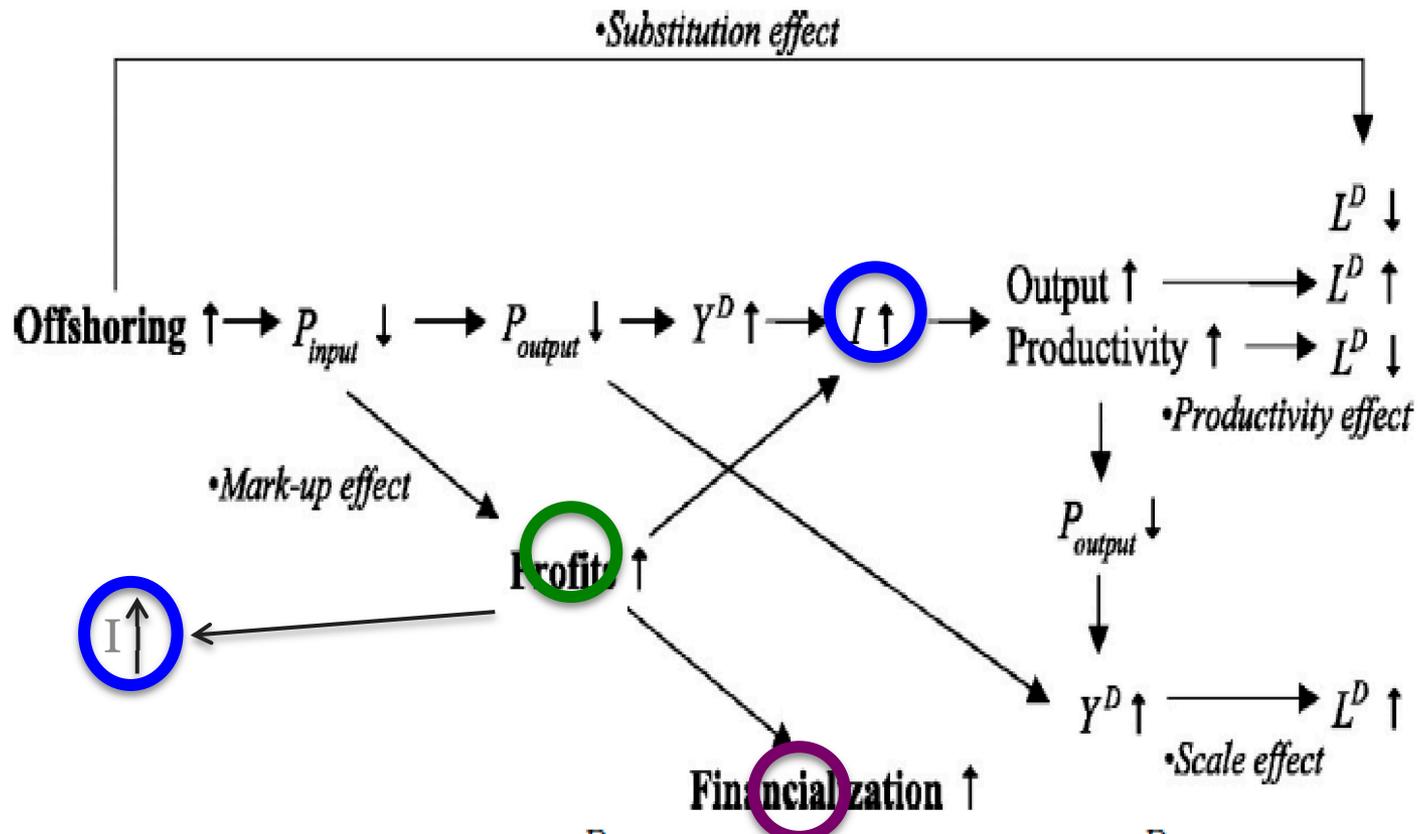


1. 16% reduction in OECD index of regulation in energy, transport and communications (ETCR) over 5 years, equivalent to the average reduction among 15 OECD countries during the period 1993-2000.
2. Two-standard-deviation reduction in policy uncertainty corresponds to a 10% reduction.



Globalization, Investment, and Corporate Payout Strategy opportunities

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



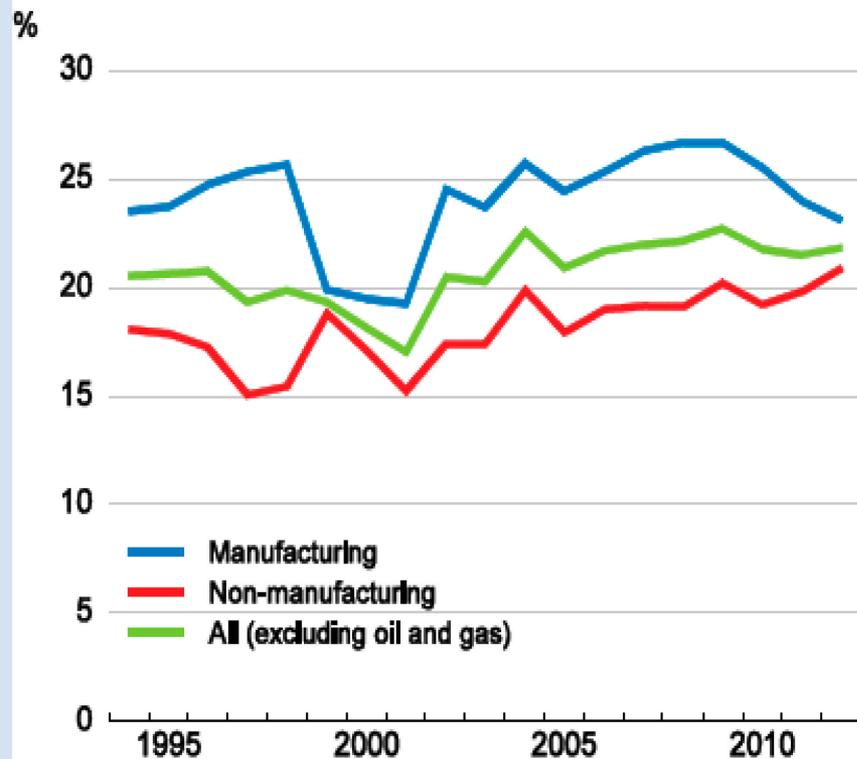
Adapted from

Milberg and Winkler (2009). Y^D = demand for output and L^D = demand for labour.

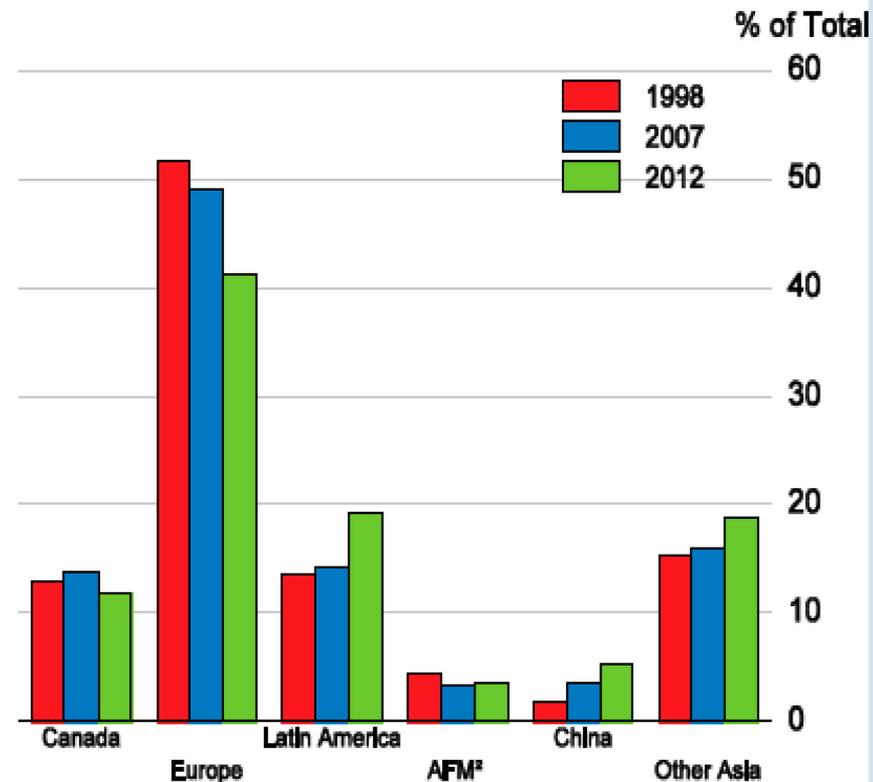


Global investment opportunities,

A. Share of US MNE group Investment performed by MOFAs¹



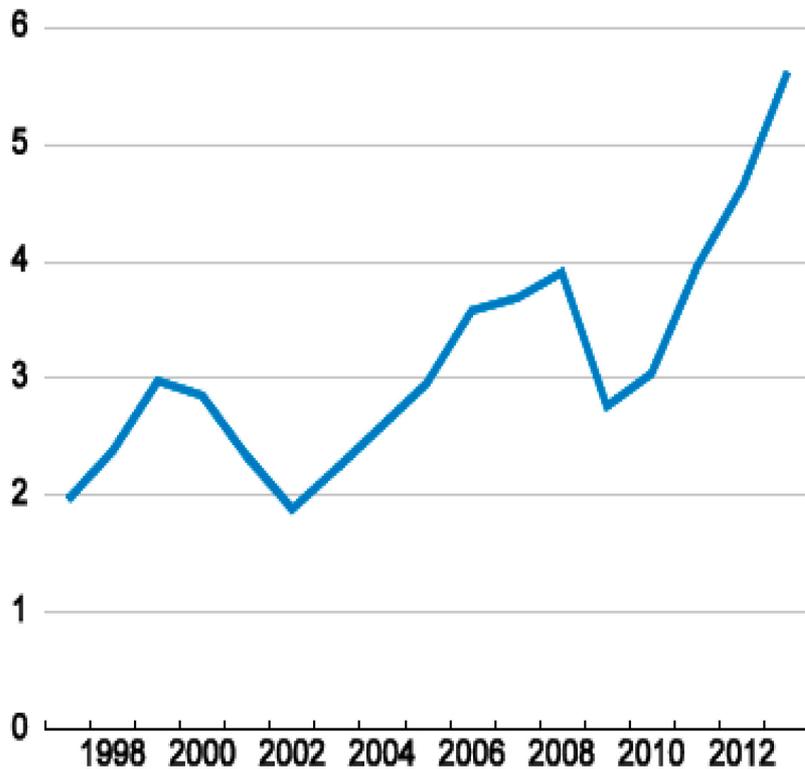
B. Location of capital Investment by US MOFAs¹



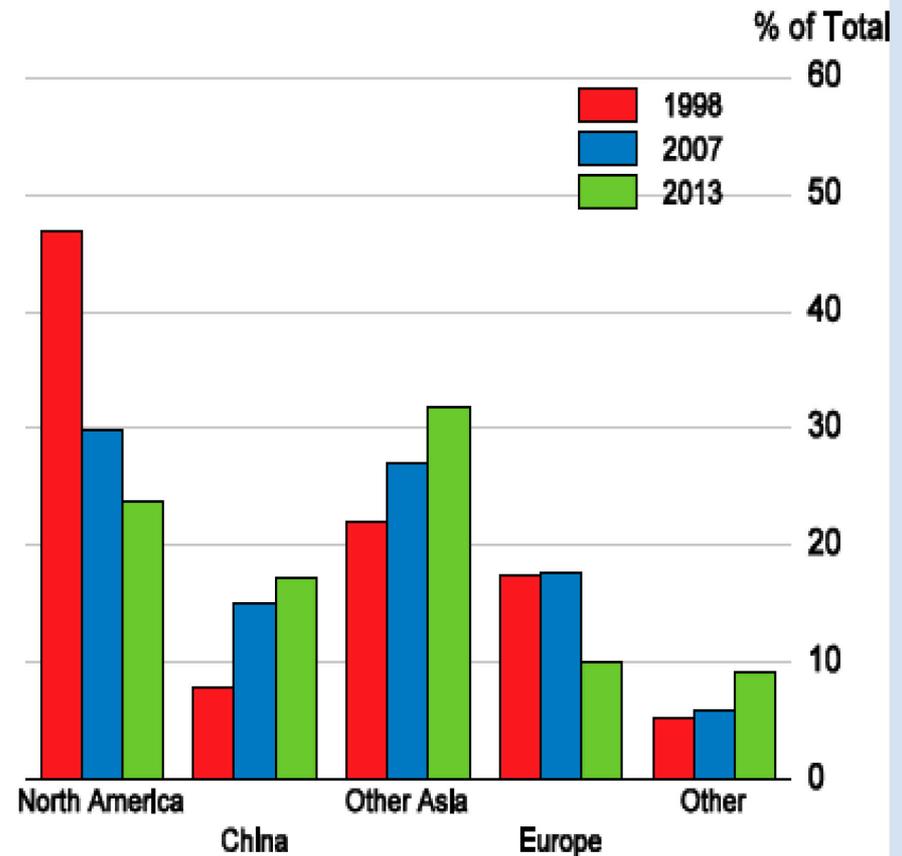


Global investment opportunities,

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

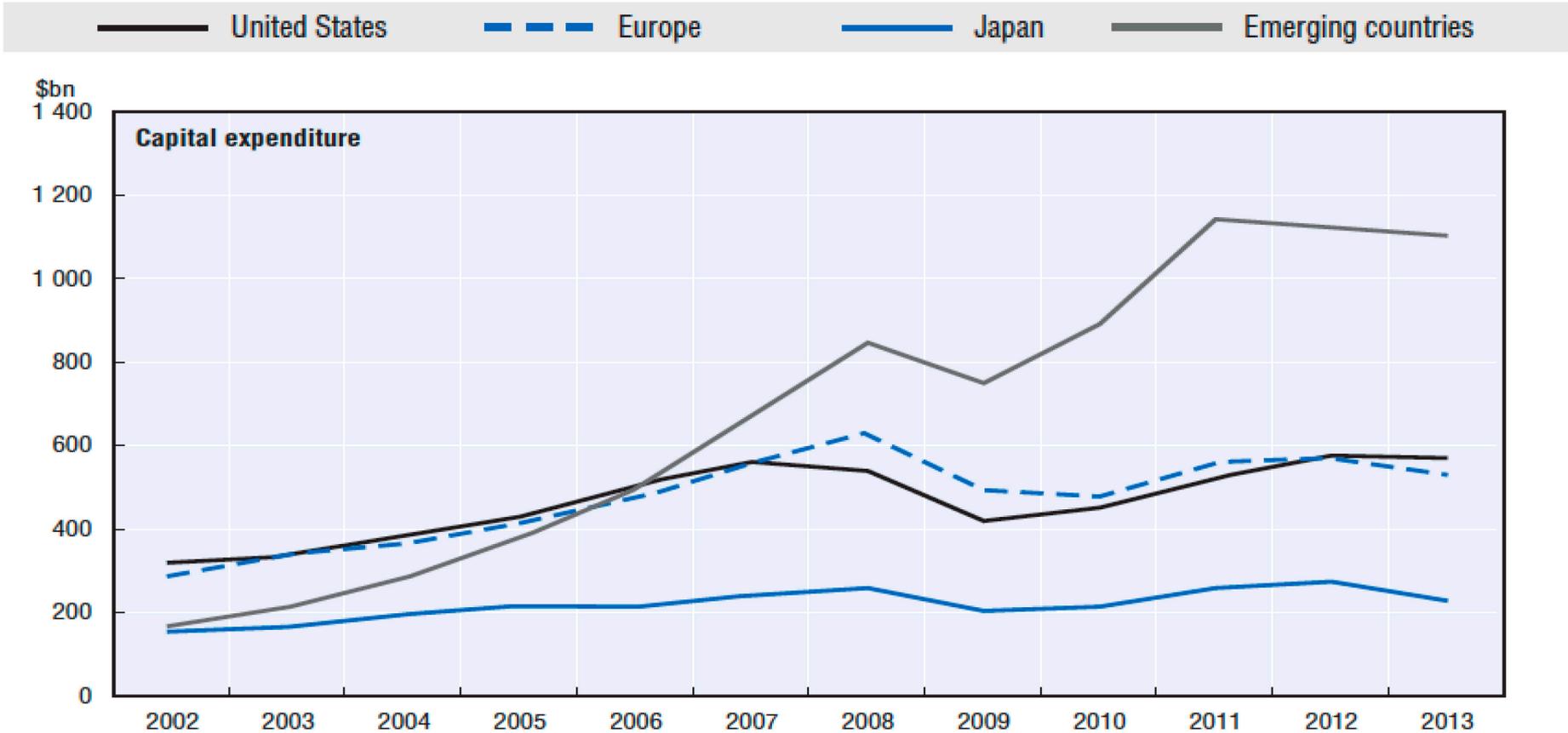




Micro data—public Bloomberg, global

Global opportunities – micro data

Figure 4. Net sales and capital expenditure: Non-infrastructure (\$bn)



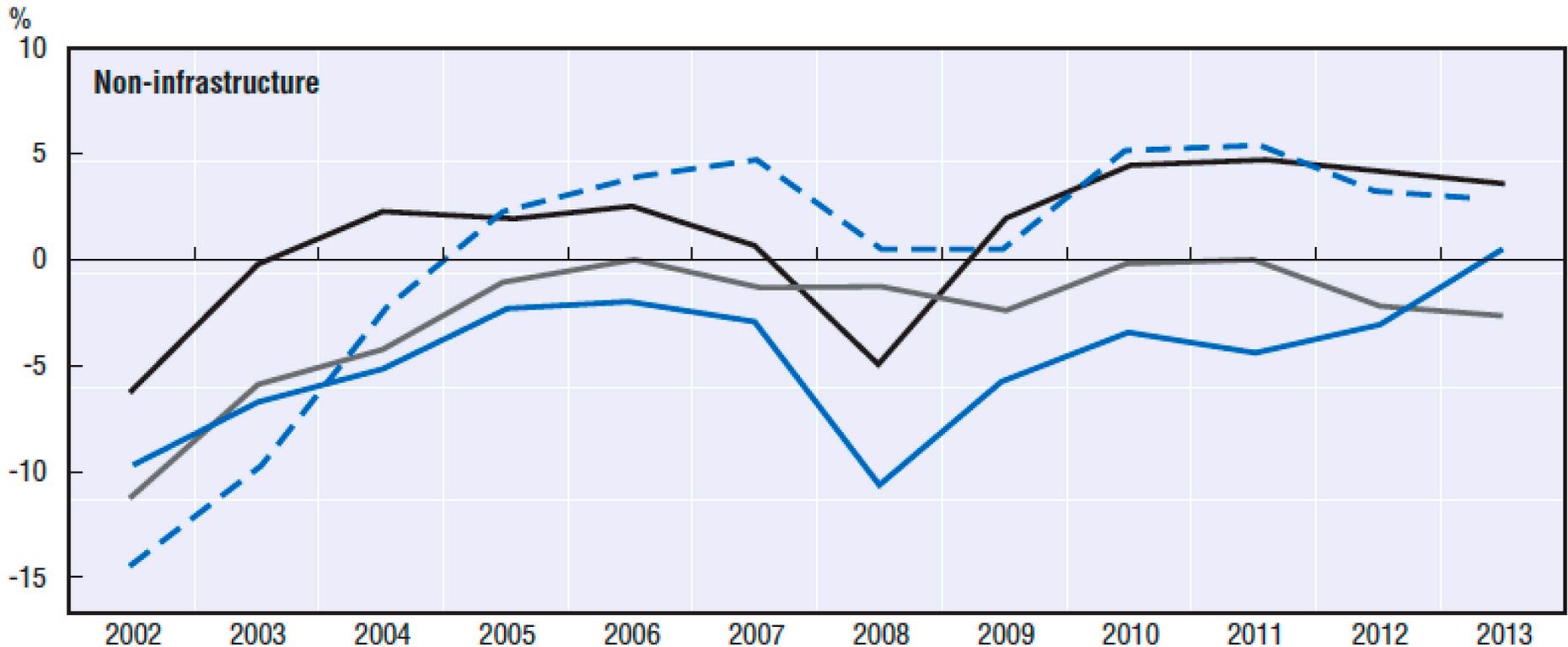
Source: Blundell-Wignall and Roulet, 2015 Infrastructure versus other investments in the global economy and stagnation hypotheses: What do company data tell us?. OECD Journal: Financial Market Trends, Volume 2014/2



Global opportunities – micro data

Figure 10. ROE minus the cost of equity

Emerging countries United States Europe Japan

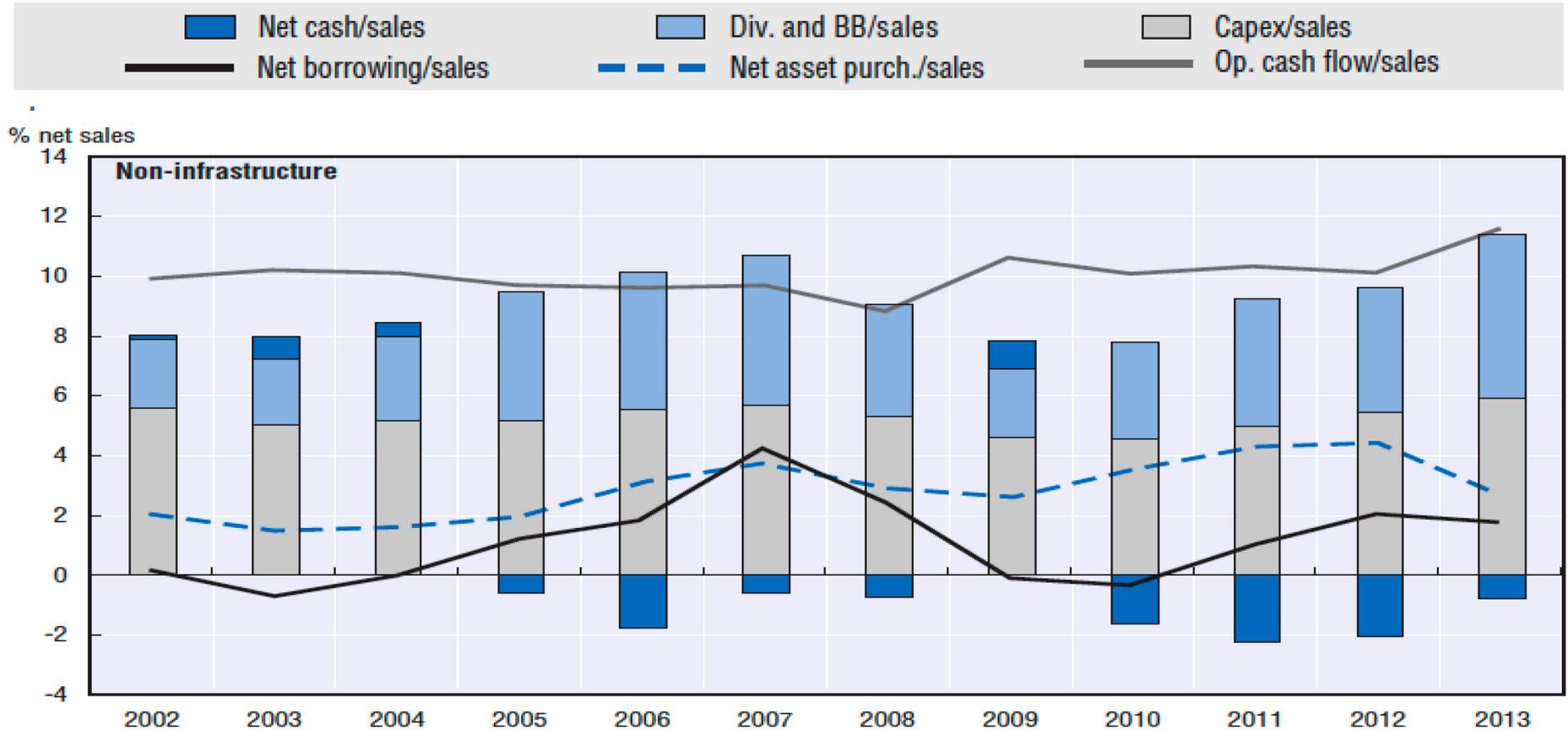


Source: Blundell-Wignall and Roulet, 2015 Infrastructure versus other investments in the global economy and stagnation hypotheses: What do company data tell us?. OECD Journal: Financial Market Trends, Volume 2014/2



Global opportunities – micro data

Figure 12. Capital spending and related flow financing: United States



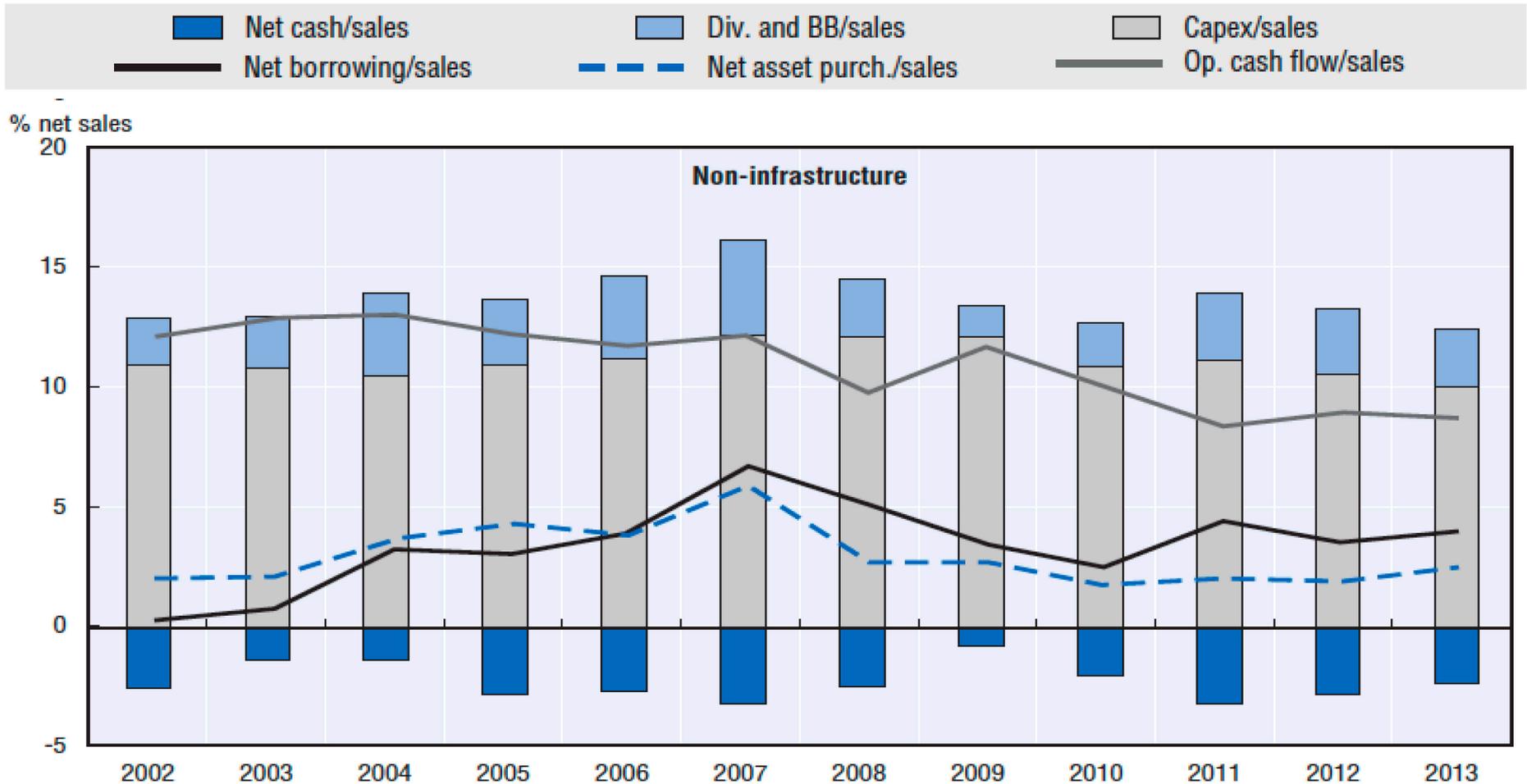
Source: Blundell-Wignall and Roulet, 2015 Infrastructure versus other investments in the global economy and stagnation hypotheses: What do company data tell us?. OECD Journal: Financial Market Trends, Volume 2014/2



Micro data—public Bloomberg, global

Global opportunities – micro data

Figure 15. Capital spending and related financing: Emerging countries





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?