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Macro Roundup Artcile

Headline: The US Capital Glut and Other Myths

Article Link: https://kotlikoff.net/wp-content/uploads/2023/08/The-US-Capital-Glut-and-Other-Myths-8-31-23.pdf

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Publication	Economics Matters
Publication Date	August 31, 2023

Tweet: Alan Auerbach @Kotlikoff argue that the global savings glut was a "myth." The market return on capital, which would show a decline if there were a capital glut, increased in the 2000s and 2010s.

Summary: There has been no major increase in the US capital-output ratio, nor has there been a major decline in the US marginal product of capital – the economy's real return to capital. The US capital-output ratio remains close to its postwar average and capital's real return has remained roughly constant -- around 6%. During the 2000s the marginal product of U.S. capital (MPK) was a healthy 5.84%. In the 2010s it was even higher at 6.42%. The market return to capital would show a decline if there were a capital glut and investors expected lower rates of return, It shows no such decline. The market return to capital's real return averaged 5.52% between 1950 and 1989. Btw 1990 and 2019 it averaged 6.95. Hence, the broadest market-based real return data shows a rise, not a fall in returns in the recent decades during which capital has allegedly been in vast oversupply. The real return to US wealth between 2010 and 2019 averaged 8.25% – the highest average return of any postwar decade. Related: In Search of Safe Havens: The Trust Deficit and Risk-free Investments! and Summers and Blanchard Debate the Future of Interest Rates

Primary Topic: Savings Glut/Trade Deficit

Topics: Database, GDP, Important!, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Weekly

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