Investment, Growth and Political Economy in the US

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Investment in the US Economy Has Begun to Recover—But Remains Below Normal Both Historically and Comparatively

- US is at the low end of World's Functioning Economies in Terms of Private Investment as Percentage of GDP, according to the CIA.

- Total Public and Private Investment was 19.3% of GDP in 2013, down from a range of 21-23% during the 2000's– but up from a low of 17.5% in 2009, off a shrunken GDP base.

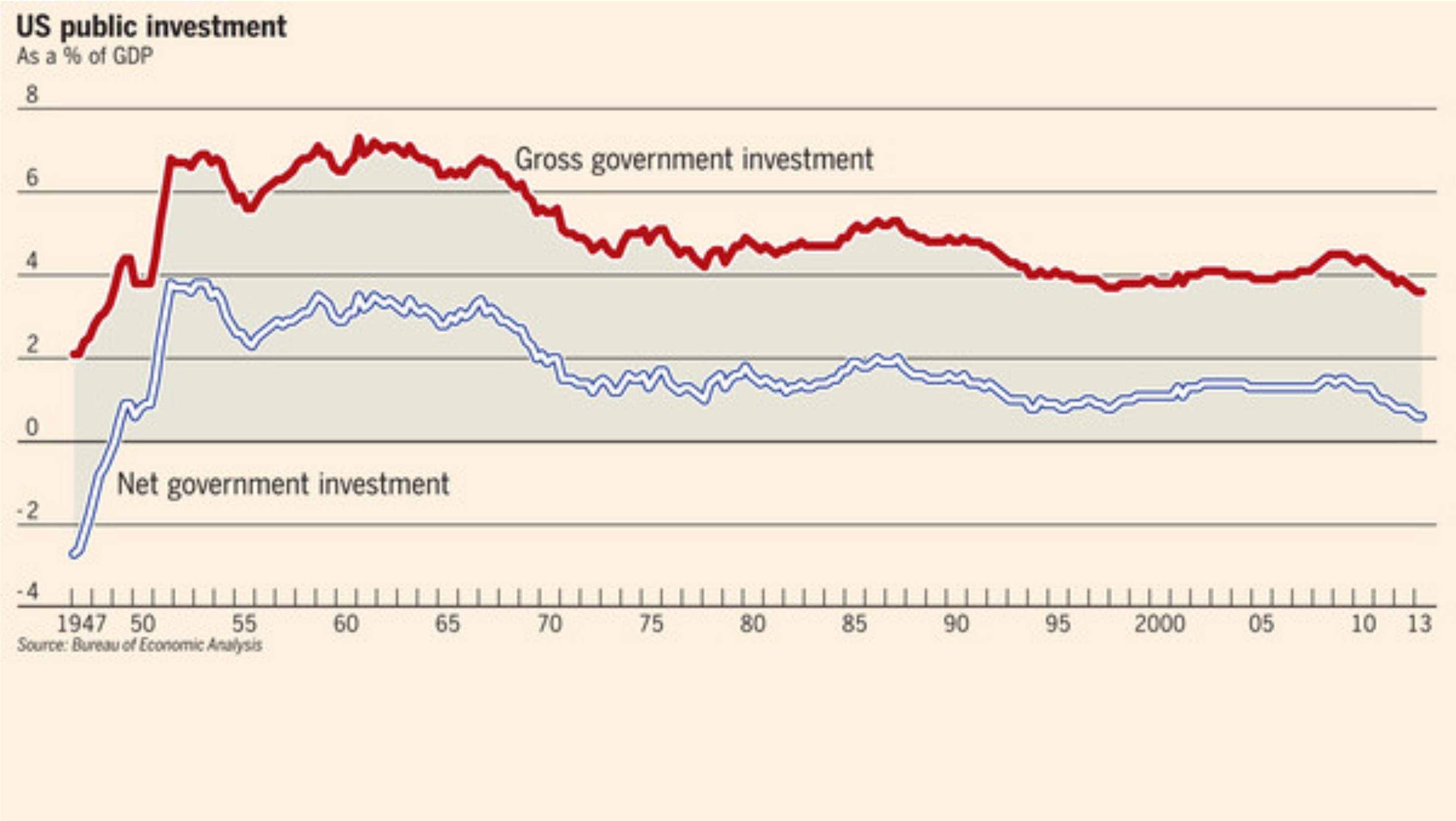
Drivers of Investment Trends

- The big number in US investment trends in recent years is the growth and collapse of housing investment as a percentage of GDP—from 4.5% in the 1990's to a peak of 6.5% in 2005, to a current depressed level of 3.1%.
- Private non residential investment in normal times during the last twenty five years has been around 13% of GDP-- peaking at over 14% during the tech bubble– and falling to 11% during the aftermath of the financial crisis. By 2013 it had recovered to over 12%, and is continuing to rise this year.
- Federal Government investment as a percentage of GDP remained relatively constant even during stimulus– varied by less than half a point of GDP.
- State and local government investment has fallen as a percentage of GDP—at its peak in the postwar era it was at 3% of GDP, pre crisis around 2.5%, its trend is downward—2.0% in 2013.

Lessons Learned From the Role of Investment in US Recovery

- Private investment has recovered slowly– follows recovery in economic growth– does not lead it.
- Increased savings does not immediately lead to increased investment– savings spiked with the onset of the crisis, then fell back– while investment collapsed, then grew with consumer spending.
- Public investment in the US is heavily dependent on dynamics between state and local government—and as a result was largely a drag on recovery–- post 2010.
- Private investment and consumer spending seems to have been responsive to quantitative easing– public investment moved inversely.

One of the Greatest Challenges Facing the US is the Long Term Decline in Public Investment



The Consequences of Long Term Decline in Public Investment

- American Society of Civil Engineers rates our infrastructure a D+
- Key elements that were rated a B in the 1980's—water, inland waterways, aviation– are now rated a D.
- In early 2009, China and US both committed to building high speed rail network– today US has zero high speed rail lines– China's high speed rail network carries more passenger miles than US domestic airlines. Chinese are selling high speed rail technology to Africa.
- Long term growth and competiveness in imperiled.

The Political Economy of Investment in the United States

- At the corporate level, the financialization of firm governance has led to firms diminished effectiveness as investment vehicles.
- In the public sector– the postwar bipartisan consensus on public investment has collapsed. While neglect in this area began in the 1990's, that neglect has become outright opposition on the part of a significant part of the Republican Party.
- The power of financial interests in both political parties push the public investment debate in ultimately fruitless directions– toward financialized non-solutions.
- There will be a contest within both these parties over public investment issues leading up to the 2016 elections as part of a larger debate around the direction of the US economy post-Obama.