

# Discussion of “The Secular Stagnation of Investment?”

by Jones and Philippon

Anton Nakov

ECB and CEPR

*The views here do not necessarily coincide with official ECB views.*

19 December 2016

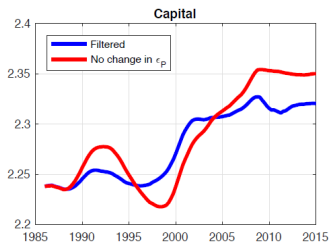
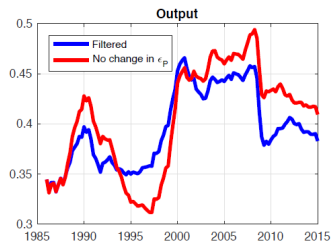
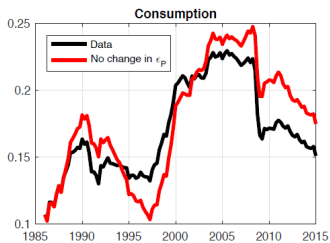
# Motivation

- ▶ Most studies of the liquidity trap abstract from capital
- ▶ Consumption is depressed because the real interest rate is too high relative to the natural real rate
- ▶ The ZLB episode is usually triggered by an increase in “patience”
- ▶ But if that were true then investment should rise

## What this paper does

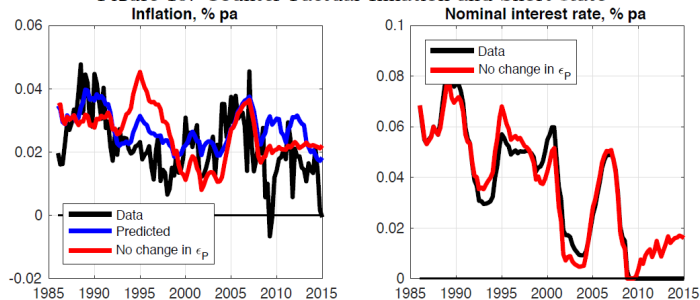
- ▶ Document that investment has been weak since the early 2000's relative to Tobin's  $q$
- ▶ A companion paper (Gutiérrez and Philippon) finds that lack of competition is responsible: industries with less competition invest less
- ▶ Propose a simple NK model with capital accumulation and a ZLB
- ▶ Feature: time-varying degree of competition in goods market
- ▶ Confront the model with series on consumption, investment, the Treasury Bill rate, and the expected duration of ZLB

# Main findings



# Main findings

Figure 10: Counter-Factual Inflation and Short Rate



## Comments: alternative views

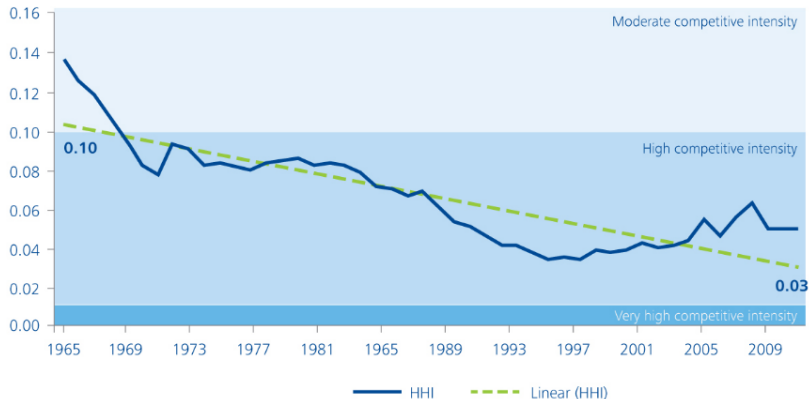
- ▶ The paper proposes a view of recent US economic performance based on weak investment due to decreased competition.
- ▶ Some prominent alternative hypotheses:
  - ▶ Liquidity trap due to higher patience (e.g. Krugman, Eggertsson and Woodford) or due to deleveraging (Eggertsson and Krugman)
  - ▶ “Secular stagnation” due to chronic excess of savings over investment (Summers)
  - ▶ “Savings glut” emanating from the higher savings of emerging markets (Bernanke)
  - ▶ “Supply-side secular stagnation” due to a fundamental decline in productivity growth (Gordon)
  - ▶ Deleveraging after excessive debt build-ups (Rogoff)

# Comments and questions

- ▶ Is the stagnation of investment in the present model really *secular*?
- ▶ Key assumption: competition has been on a downward trend

# Evidence of declining US industry concentration?

Figure 18: Economy-wide Herfindahl-Hirschman Index (HHI) (1965–2012)

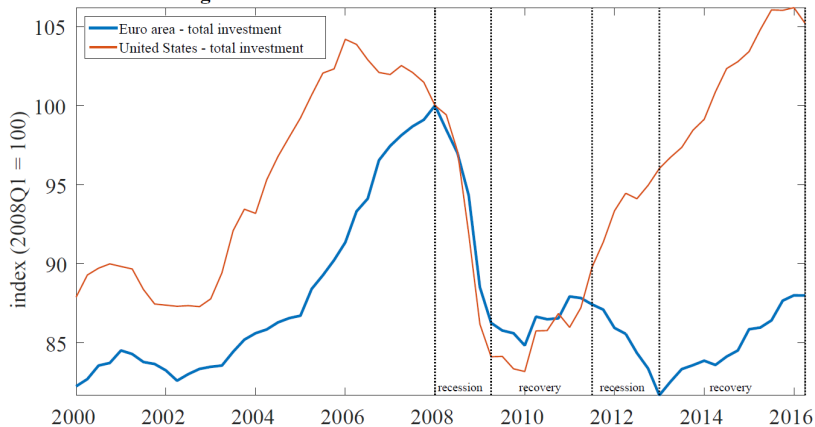


Source: Compustat & Deloitte



# US total investment has already recovered?

Figure 1: Euro area and US investment since 2000

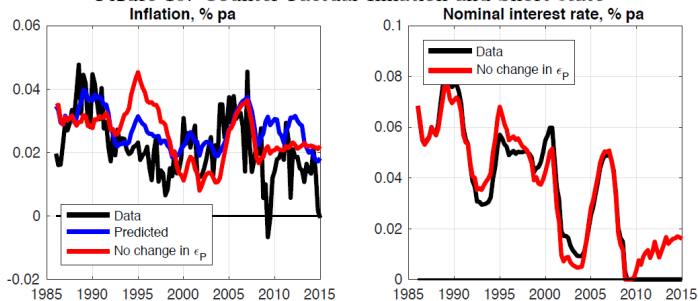


Source: Lenza, Tristani, Vermeulen (2016)

# Counterfactual predicted inflation?

- ▶ If competition is on a declining trend, shouldn't we observe rising inflation?

Figure 10: Counter-Factual Inflation and Short Rate



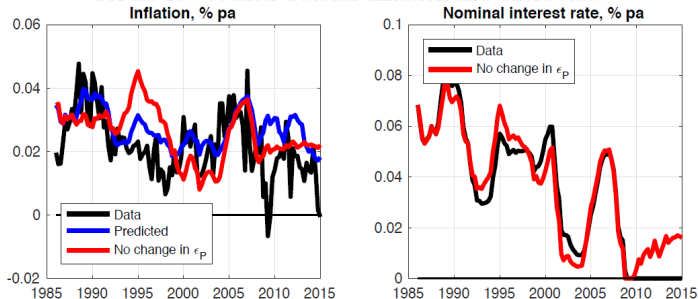
## More comments and questions

- ▶ What is the role of the ZLB in the analysis? What would have happened in a counterfactual simulation without the ZLB?
- ▶ Sticky prices, sticky wages, what's their role?
- ▶ Please provide details in the paper about the calibration / estimation

# Comovement of inflation and the nominal interest rate?

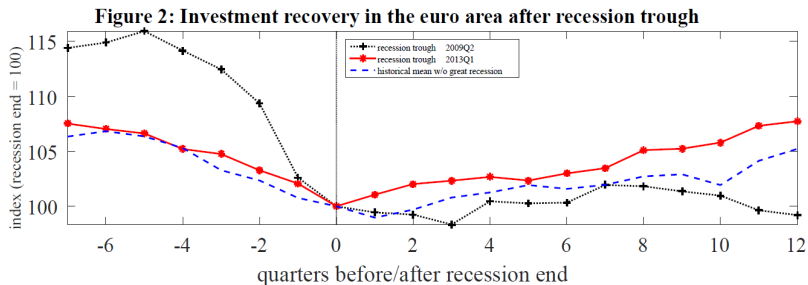
$$i_t = \max \left[ 0, -\log(\beta) + \phi_p \pi_t^P + \phi_w \pi_t^W + \phi_y (n - \bar{n}) \right]$$

Figure 10: Counter-Factual Inflation and Short Rate



# Are the results specific to the US?

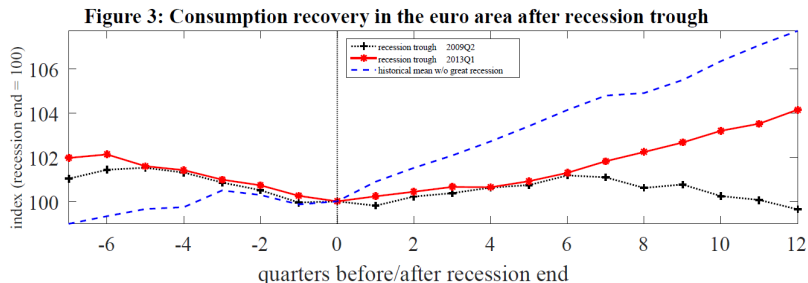
In the EA pace of investment recovery is not slow in historical terms.



Source: Lenza, Tristani, Vermeulen (2016)

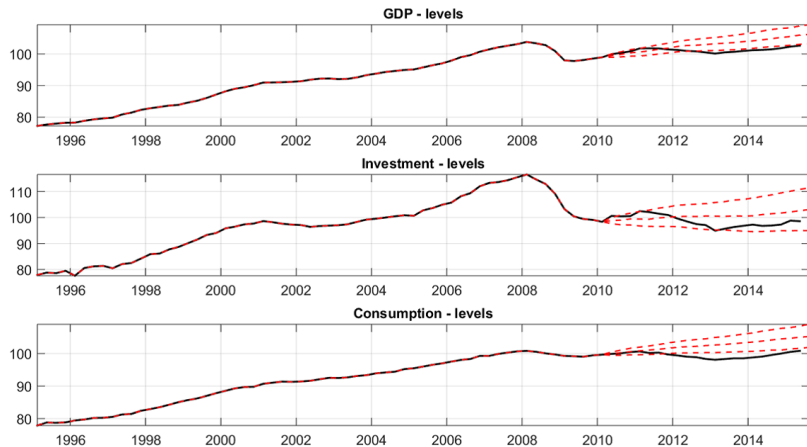
# Are the results specific to the US?

Instead, it is consumption, which has been growing more slowly than usual.



Source: Lenza, Tristani, Vermeulen (2016)

# Are the results specific to the US?



Source: Lenza, Tristani, Vermeulen (2016)

# Final comments

- ▶ Very interesting project
- ▶ Promising new addition to a great research agenda
- ▶ But the paper is still work in progress
- ▶ I look forward to its future development