



Capital mobility and the relationship between saving and investment rates in OECD countries

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Abstract

This paper considers tests that use data on saving and investment rates to determine the degree of international capital mobility. Two types of evidence are presented to show that a high correlation between saving and investment rates across OECD countries can be consistent with a high degree of capital mobility. This evidence qualifies the conclusions of previous studies and casts doubt on the usefulness of testing hypotheses about capital mobility with data on saving and investment rates.

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...A high observed correlation between saving and investment is not necessarily inconsistent with a high degree of capital mobility if common sources drive saving and investment in the same direction. The theoretical literature has shown that, regardless of capital mobility, a high saving–investment correlation can be found in the presence of macroeconomic shocks (Tesar, 1993; Decressin and Disyatat, 2008; Bussière et al., 2010), population growth (Obstfeld, 1986), long-run solvency constraints (Coakley et al., 1996; Summers, 1988; Taylor, 2002), current account targeting (Artis

and Bayoumi, 1992), financial frictions (Bai and Zhang, 2010) long-run risks (Chang and Smith, 2014), or a large-country effect (Murphy, 1984; Baxter and Crucini, 1993). The empirical literature has been attempting to capture these determinants of saving and investment by employing various econometric techniques....

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