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DAILY GLOBAL COMMENTARY

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Capital Stock of the U.S. Economy – History

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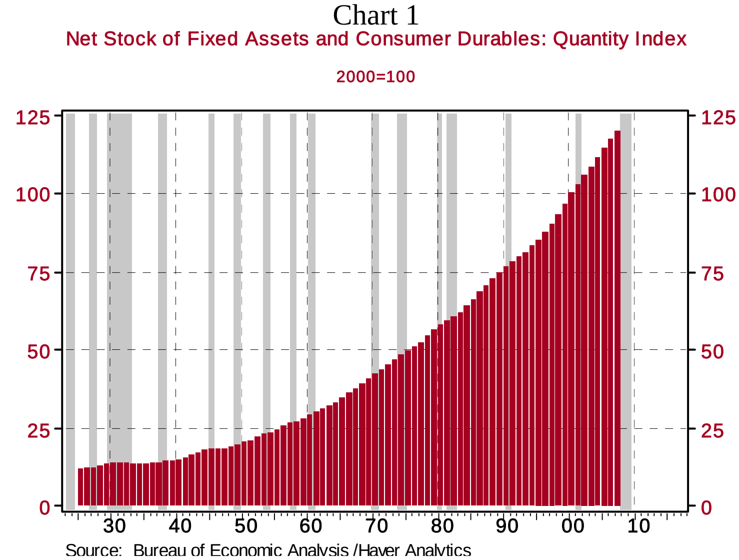
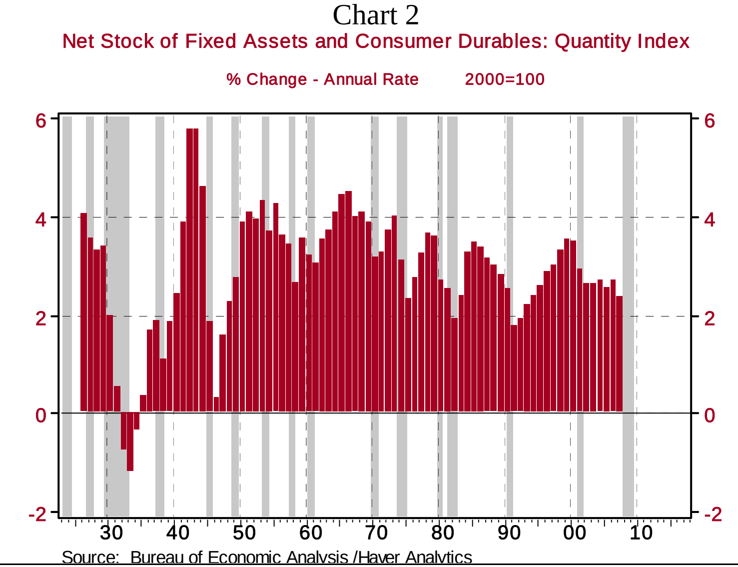
Capital is defined as the inventory (stock) of plant, equipment, and other productive resources held in the economy by a business firm, individual, or organization. Gains in investment (flow) lead to the accumulation of capital (stock). The growth in the size of the economic pie is strongly tied to the growth of the capital stock of the economy. What is the history of the growth of capital stock? Over time, the capital stock of an economy grows (see chart 1).

Chart 1



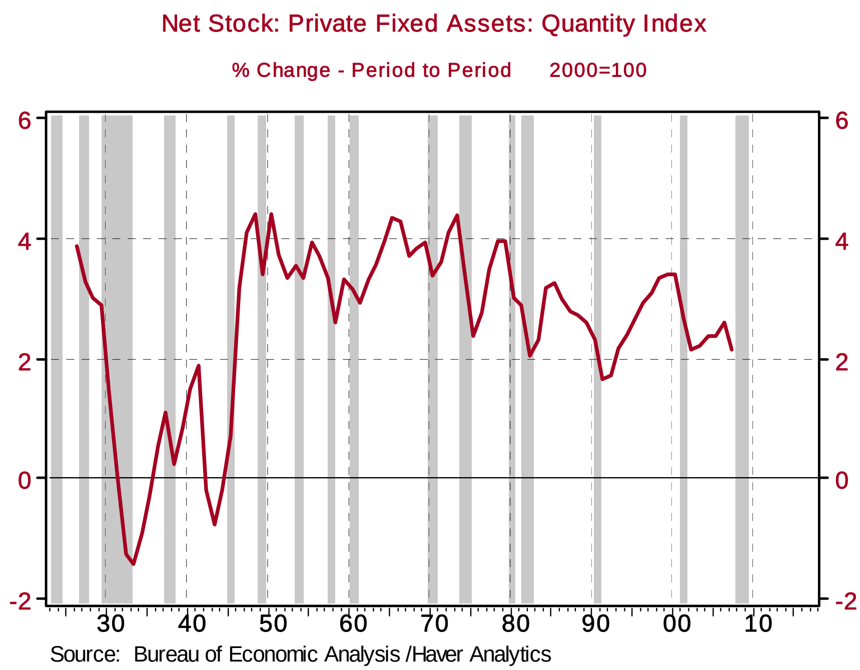
But, the rate at which capital stock of an economy grows varies across phases of a business cycle and inevitably the growth of the capital stock is slower during recessions, and there has only been one situation when the total capital stock (private and public sectors) has declined – 1932-1934 (see chart 2). Note: Shaded regions denote recessions.

Chart 2



Focusing just on the private sector, the capital stock of the economy fell during the Great Depression and during World War II (see chart 3).

Chart 3



Note: Shaded regions denote recessions.

Why is this relevant and important in today's economy? The economy is experiencing a historically severe recession, the capital stock of the economy is most likely to have grown very slowly in 2008 (data plotted ends in 2007 in charts 1-3) after a 2.1% increase in 2007. In addition, the economic expansion which began in 2001 and ended in 2007 has recorded the smallest growth rate in the capital stock of the economy since the 1970-1973 expansion. The implication is that the long-term potential growth path of the economy will be adversely affected if investment (flow) in the economy fails to gather momentum.