International Capital Mobility: What Do Saving-Investment Correlations Tell Us?  

Reply to Miller

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Miller's interesting argument is a good example of a class of alternative explanations of saving-investment correlations. The basic idea behind these arguments is that sources of independent shocks to national saving and investment rates that are thought to be important quantitatively are either not independent or are not shocks at all. In this case, it is argued that there are good reasons to believe that changes in debt-financed government expenditures are fully offset ex ante by changes in an ultrarational private sector's saving and investment behavior. Thus, from the point of view of international capital markets, no disturbance will be observed. A similar argument is that, although there are various shocks to the system that appear to require net saving flows across countries, these shocks are fully dissipated by changes in relative prices so that no observed intertemporal trade is predicted.

In general, we find these arguments interesting but, so far, unconvincing. In reference to Miller's argument, we would assume that there are other shocks to national saving and investment rates, in addition to changes in governments' saving and investment behavior. An ultrarational private sector might neutralize changes in government behavior,

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but this is only one of a multitude of disturbances that could produce intertemporal trade across national boundaries. For example, a technological breakthrough would surely favor an uneven increase in the capital stock of countries with different production functions. Moreover, countries with dissimilar age profiles for their populations would presumably engage in intertemporal trade.

Finally, if the correct description of the world is one in which there are no ex ante reasons for net capital flows, then the whole issue of capital mobility is of no interest. Indeed, the degree of capital (as opposed to goods) mobility would have no welfare implications.
THE WORLD ECONOMIC OUTLOOK, APRIL 1988
INTERNATIONAL MONETARY FUND

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189 pages; ISBN 1-55775-011-4

Price: US$15.00 (US$11.00 to university libraries, faculty, and students).

Available from Publication Services
International Monetary Fund • 700 19th Street, N.W.
Washington, D.C. 20431, U.S.A. • Telephone (202) 623-7430

INTERNATIONAL REVIEW OF ECONOMICS AND BUSINESS

Rivista Internazionale
di Scienze Economiche e Commerciali

April-May 1988, Vol. XXXV


June 1988, Vol. XXXV


A quarterly journal. Subscription rate: Life 120.000 (Italy); Life 150.000 (abroad). Complete set of back issues, 1954-1987, special price: Life 1.450.000. - Address: R.I.E.C. · Via Teodoro I 20136 Milano (Italy).

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