

New Facts on the 'F-H Puzzle' in OECD countries: The Effects of International Capital Flows on Domestic Savings, Investment and Growth

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<Abstract>

This paper examines the post 1980 period during which 'puzzle' of Feldstein-Horioka (FH) (1980) could not cover the period between 1960 and 1974, when domestic savings maintained a significant correlation with domestic investment in 21 OECD and G7 countries, which are examined separately. This paper attempts to examine whether such a 'home bias' of resources for domestic investment still holds adding capital inflows as explanatory variable together with external trade during the period from 1975 to 2017. This paper also examines the correlation between domestic savings and GDP growth in OECD countries during the same period.

The analysis in this paper shows that domestic savings are still one of the major factors for domestic investment, and that capital inflows and external trade would not guarantee domestic investment and GDP growth in OECD countries. The results indicate that while the correlation between domestic saving and investment has constantly declined in OECD during 1990s and 2000s, the nexus of saving and investment as well as GDP growth has gained significance, while capital inflows have no positive correlation with GDP growth nor domestic investment in OECD countries in the post-Global Financial Crisis (2010-2017).

The results could be interpreted that many countries now have become more independent on their own resources and less dependent on external financial resources for domestic investment and economic growth. The overall results in this paper show that smaller countries with capital account and financial liberalization tend to have been more affected by capital flows on domestic savings and investment, as well as GDP growth.