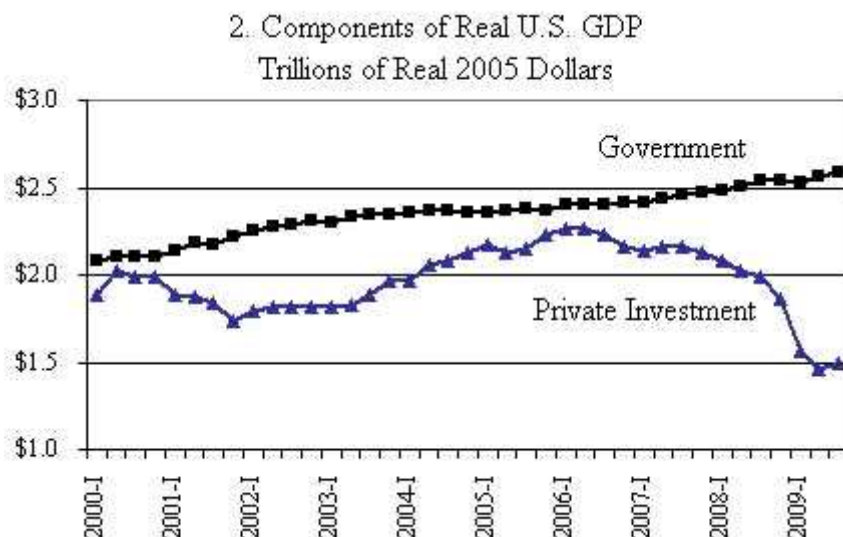


Matt Yglesias

Oct 30th, 2009 at 5:28 pm

Did Barack Obama Cause The Collapse in Private Investment

One thing's for sure, the depths of the current recession can be seen in the low level of private investment. And [this chart from Chris Edwards](#) certainly shows that despite the stimulus-driven return of GDP growth, private investment remains depressed. We won't have a real recovery until it comes back:



That said, his interpretation of this data is ridiculous:

Business investment continues to be in a deep recession. Companies are simply not building factories or buying new machines and equipment.

Why not? I suspect that many firms are scared to death of higher taxes, inflation, health care mandates, increased labor regulation, and other profit-killers coming down the road from Washington. That is speculation, but I haven't heard a better explanation of the death of private investment in America.

Note that though the steepest cliff-diving happened in 2008 Q4 and 2009 Q1, the decline actually began way back in 2006, so it's hard to say how fear of Barack Obama could have caused it. As for a better explanation, how about the problems in the financial system that were accumulating during this period and then reached a true crisis point in the fall of 2008? Surely we haven't forgotten about that already, have we? And since the collapse, we've been facing a problem of low aggregate demand and deflationary expectations, both of which discourage investment, combined with massive overcapacity in real estate. The idea that anticipating *inflation* would cause an investment drought is both illogical and flies in the face of the fact that [markets are not anticipating inflation](#).



I would note that not only did the current decline in private investment start fully in the Bush years, but that there was a similar declining private investment phase during 2001. Does Edwards see that as caused by Bush embracing high taxes and health care mandates? Isn't it more plausible that that was the dot-com bubble bursting just as this is the real estate bubble bursting?

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34 Responses to “Did Barack Obama Cause The Collapse in Private Investment”

1. *JM* Says:

[October 30th, 2009 at 5:43 pm](#)

Apparently, the Cato Institute has found a fancier way to say “go Galt.”

Morons.

2. *cmholm* Says:

[October 30th, 2009 at 5:46 pm](#)

I suspect the reason private investment has fallen off a cliff is that – at the moment – the fat cats don't trust each other with their money, and are standing pat until some other rubes comes along put *their* capital into the market. If the guinea pigs don't get cleaned out, perhaps the smart money will poke its nose out the front door of the co-op.

3. *Adrock* Says:

[October 30th, 2009 at 5:52 pm](#)

I disagree with his conclusions, but remember, he is (I think anyway) talking about private investment, where a company invests in itself by retooling old processes, buying new software, to be more efficient.

These things only happen with cash on hand, which I suspect all of people are either unable or unwilling to spend, or to get money from outside sources of investment. The market bottomed out, so not many people have money to spend. So you need to find VCs and Angels. My company was fortunate enough to get some angel funding at the end of the summer. We didn't need it to operate, but to expand. Great! But it wasn't easy, even though we are a profitable self-funded organization with real potential and very low operating costs. I'll make just as vague a claim as Edwards: These guys are worried about where to spend the money, on what. Not some boogie tax man.

4. *H-Bob* Says:

[October 30th, 2009 at 5:56 pm](#)

Wouldn't "private investment" include the subprime bonds whose market price fell to approximately zero ?

The Lehman Brothers' collapse was in September 2008 (3rd Quarter) and the survivors' write-downs probably didn't occur until the 4th quarter of 2008.

5. *rapier* Says:

[October 30th, 2009 at 6:02 pm](#)

The world does not need a lot of new investment. There is not enough profit to be had from the worlds \$60 trillion GDP to satisfy the hundreds of trillions flying around it to garner the 10%+ profit investors seem to believe is their right. The financial and thus economic crisis can be considered to have been caused by too much money seeking gains and income.

In order to satisfy 'investors', who as I said believe double digit profit is their divine right, the financial sphere had to design endless schemes in order to inflate assets and profits in order to keep investors happy. It was a fools game.

The world has an over supply of almost everything vs demand so don't expect investment to increase. I hate to say this but there are limits. In fact the world does not need a lot of 'investment' for profit. Even if you think it does the earth disagrees.

6. *cleek* Says:

[October 30th, 2009 at 6:08 pm](#)

if businesses are anticipating all the things Edwards claims, wouldn't they be trying to do as much buying/investing as they can before those things arrive ? that's what many businesses do before actually-enacted new regulations take effect – i know my accountant always encourages me to buy X, Y and Z before the new taxes on X, Y and Z take effect.

then again, i'm just a small business owner, and not a Cato writer.

7. *rapier* Says:

[October 30th, 2009 at 6:33 pm](#)

New investment for profit is not going to happen to anywhere near the degree necessary to provide job growth. What is happening and has been happening is that big money is consolidating good assets and are on a mission of rent seeking. As part of this those working will see their incomes drop. This is unfortunate but really, why should Americans have incomes so much higher than 4 billion other humans.

The Wall Street giants are at the center of forefront of this concentration of assets and rent seeking,

along with their partners, governments around the world. The congress of course and now sadly the Obama administration.

There is no magic pony that will make endless income growth possible for the majority of Americans.

8. *James Robertson* Says:
[October 30th, 2009 at 6:42 pm](#)

The president did not cause the drop in private investment, but his continuing actions will have an impact on it coming back. If the expectations are for higher taxes, more regulation, and more uncertainty, it will stay sidelined.

The one thing that could be done quickly to help a lot would be repeal of Sarbanes/Oxley. All it's done is hand larger, existing firms (Google, Microsoft) a lifeboat. They can afford the higher cost of compliance, while smaller firms wishing to go public can't. That's why you've seen so few tech IPOs, even back in the more high rolling mid-2000s – going public has become too expensive.

9. *Kropotkin* Says:
[October 30th, 2009 at 7:16 pm](#)

Well, as long as everyone is blaming Obama for everything else; why the hell not?

10. *Nylund* Says:
[October 30th, 2009 at 8:10 pm](#)

Why doesn't Cato do us all a favor and just release one paper a year, just a single page that says, "Everything is Obama's fault." It'd save everyone a lot of time.

Come to think of it, I'd wish Fox News, the Moonie Times, etc. would all just adopt that policy as well. Everything else is just hot air.

11. *Bob Roddis* Says:
[October 30th, 2009 at 8:14 pm](#)

Obviously, [monetary dilution](#) by the Fed with bi-partisan support caused massive malinvestments that have not been allowed to liquidate. It is precisely these Bush/Obama interventions that make predicting the future difficult and why it is now prudent to not invest in the USA. Nothing that [high](#) (realistic market based) interest rates wouldn't help cure, by the way. But with poverty-inducing climate change legislation and commie medicine coming down the pike, why take a chance?

Further, the "concept" of "aggregate demand" is simply infantile and preposterous. The claim that increasing "aggregate demand" will cure our current Keynesian-induced economic nightmare is ludicrous.

High interest rates and tax cuts sure cured the problems of 1920 and 1981.

12. *Barry* Says:
[October 30th, 2009 at 8:27 pm](#)

Here's a serious question – has anybody at CATO ever written anything worth a d*mn about economics?

13. *Bob Roddis* Says:

[October 30th, 2009 at 8:35 pm](#)

From [CATO](#): Progressive Drug War causing Mexico to go the way of Colombia.

14. *Bob Roddis* Says:

[October 30th, 2009 at 9:03 pm](#)

Note also investment immediately heads downward for ground zero in October 2008, the instant it was clear that the government was going to do its insane bailouts and “stimulus”, spending, borrowing and diluting like crazy. Not a coincidence.

Just think, for \$757,000,000,000, you could pay 15,000,000 people \$50,466.66 for one year.

15. [Matthew Yglesias » Did Barack Obama Cause The Collapse in Private ... | Self Directed Investor News](#) Says:

[October 30th, 2009 at 9:27 pm](#)

[...] [Link: Matthew Yglesias » Did Barack Obama Cause The Collapse in Private ...](#) [...]

16. *CottonMan* Says:

[October 31st, 2009 at 12:11 am](#)

Good God!! Obama does have his hidden agenda & it's not good news for private investors. The federal govt. is taking over the banks, auto industry & now considering subsidizing the news media.

I'm encouraging others to read that new, political thriller where a small town in America finally stands up to federal tyranny & ends up starting the 2nd American Revolution. It's insightful of how much the govt. fears the people organizing & standing up for their rights. It's a great read!

<http://www.booksbyoliver.com>

17. *dob* Says:

[October 31st, 2009 at 12:49 am](#)

It's funny how people organizing & standing up for their rights were typified as near traitors during the early Bush years, but lauded by the same as patriots during the early Obama years. Almost as if their allegiance wasn't to the United States, but only to their political tribe.

18. *Njorl* Says:

[October 31st, 2009 at 2:39 am](#)

but I haven't heard a better explanation of the death of private investment in America.

This demonstrates the illuminating potential of sticking your fingers in your ears and screaming whenever someone you don't like is talking. It is a powerful tool which can guide you to conclusions that those who do not avail themselves of it simply can not reach.

19. *Njorl* Says:

[October 31st, 2009 at 2:46 am](#)

Note also investment immediately heads downward for ground zero in October 2008, the instant it was clear that the government was going to do its insane bailouts and “stimulus”, spending, borrowing and diluting like crazy. Not a coincidence.

This happened much the way that buildings burst into flame to prepare for the mad rush of insane firemen who squirt water on them for no reason.

20. *AllenS* Says:

[October 31st, 2009 at 7:26 am](#)

Invest in what? There is a sense of no confidence in this administration. I have no confidence in the policies that are being floated around. They indicate to me, that no profits will be realized, so why invest? It would be stupid to invest when you feel that way. Stocks that I had originally paid \$10 a share are now worth \$3. You can blame Bush all you want, but you need to understand that Obama and his administration are running the show. You and others just can't look at what's happening now. If all you can come up with, is it's Bush's fault, you are also showing no confidence in this administration. You just don't realize it.

21. *Bob Roddis* Says:

[October 31st, 2009 at 8:15 am](#)

Njorl:

Right. Firemen out of something like Fahrenheit 451, spraying gasoline on the Keynesian induced fire.

22. *rapier* Says:

[October 31st, 2009 at 8:32 am](#)

AllenS, Did you like the policies of Bill Clinton? Please discuss which of his policies made his tenure one of the best periods in history to invest in stocks, many bonds, real estate and many other assets.

My view is his policies which institutionalized the Wall Street paradigm of unlimited credit growth and its attendant mania for leveraged speculation and an overall embrace of dysfunctional monetary policy lead to rolling bubbles. Bush doubled down on that. Now Obama is trapped in the same thinking.

Conversely what policies being floated about will cause no profits to be realized?

We are in a debt deflation and there is an oversupply of a huge range of products and services in relation to the demand, world wide. In the US a huge part of that is exacerbated by the lack of credit and the desire for credit by consumers. This is a systematic issue which suggests profits will be difficult to come by.

Stocks are not an investment they are a speculation.

The DOW was around 8000 on inauguration day and 9700 today. If your ten dollar stocks were ten dollars then and three now your the worst stock picker of all time. If you bought all your stock at the 07 top explain how the major averages are now down appx 30% and yours are down 70%. I am sure the few readers left in this thread will be waiting to hear investment advice from a true master like you. Who has lost 70% of his investments and is now willing to say it's all because of cap and trade. Brilliant

23. *shooter242* Says:

[October 31st, 2009 at 9:21 am](#)

AllenS, Did you like the policies of Bill Clinton? Please discuss which of his policies made his tenure one of the best periods in history to invest in stocks, many bonds, real estate and many other assets.

Actually that only happened after the beginning of his second term, coincident with his 30% or so, cut in the cap gains tax rate. He also was fortunate to be president during Y2K, not to mention a Republican Congress.

Regarding the dearth of current business investment, it isn't surprising given the major upheaval in business finance, tax changes, and legal changes. And no, "upheaval" is not too strong a word.

Sadly, it's all too easy to spot in the commentary who has had to meet a payroll, and who hasn't. "Clueless" is also not too strong a word.

24. *AllenS* Says:

[October 31st, 2009 at 9:44 am](#)

rapier-

My investments are still bringing in money. I am well diversified. The value is what has fallen. Now, I don't care what you think of Clinton, Reagan, Bush, or George Washington's policies. I want everyone to address this, the current administration's policies and tell me if you feel like investing now. I am a Social Security recipient, and received the \$250 dollar stimulus in May, like about 50 million other recipients. Did you think that was good policy? They are talking about doing it again. If it was such a good idea the first time, why not make it better and give us all \$25,000. I see things getting worse. A lot worse, but let's talk about anybody but Obama.

25. *Kim* Says:

[October 31st, 2009 at 10:29 am](#)

What we have is a long term economic cycle oscillating between Corporate Capitalism and Democratic Capitalism . Democratic Capitalism was reinstated after WWII to fix up the problems produced by Corporate Capitalism . In the mid 70's Corporate Capitalism started to take over – costs of scale – the age of the monoliths arrived . Corporate Capitalism has within itself the seeds of it's own destruction – that's what we are seeing at the moment – the economic crash was produced by the approach – the mindset – of Corporate Capitalism . A classic example of the results of it's self destructive approach is looking at the customer base being destroyed by Corporate Capitalism . The bailouts did not restore the customer base – instead they went to propping up a dying system – so were wasteful . There will be an upswing for the next few decades of Democratic Capitalism – after many monoliths have been destroyed .

26. *Jeffrey Davis* Says:

[October 31st, 2009 at 10:36 am](#)

We have no precedent in our economy for what happens when you lose an entire year's GDP. What exists in the rest of the world says, "It takes a real long time to get back to normal and you probably won't get back to normal. That much wealth destroyed? You're f*****d. Get used to it."

Of course, recrimination and finger-pointing at those currently in power are to be expected.

27. *The Entrepreneurship Deficit* Says:

[October 31st, 2009 at 10:55 am](#)

[...] want to back up Matt Yglesias's response to Chris Edwards's post at the Cato blog provocatively called "The Death of Private [...]"

28. *David* Says:

[October 31st, 2009 at 11:16 am](#)

Chris Edwards writes “I haven’t heard a better explanation of the death of private investment in America.”

While I agree with Matt’s story, another possibility is that the financial crisis caused the amount of uncertainty in the economy to increase. When undertaking investment involves large set-up costs and is mostly irreversible (your machine is worth more to your company than anyone else’s) and increase in uncertainty causes investment to plummet because in economist lingo the “option value of waiting” increases. That is, now that things are more uncertainty, the value of just waiting and seeing as increased.

This uncertainty shock story is very popular in Macro right now. The canonical example is Nick Bloom’s paper on the effect of 9-11 on Investment, Output and GDP (see below)

<http://www.stanford.edu/~nbloom/uncertaintyshocks.pdf>

29. *Barry* Says:

[October 31st, 2009 at 11:56 am](#)

Bob Roddis Says:

“Note also investment immediately heads downward for ground zero in October 2008, the instant it was clear that the government was going to do its insane bailouts and “stimulus”, spending, borrowing and diluting like crazy. Not a coincidence.”

Um, you mean as Lehman Brothers, one of the biggies of Wall St, collapsed utterly? When a massive bailout (which I wish had been on better terms) was the only thing standing between us and Great Depression II?

30. *Aatos* Says:

[October 31st, 2009 at 1:26 pm](#)

Well this fear of taxes has no basis in reality. It’s being spread by Republican liars, making stuff up. So if whatshisname were really concerned about the impact if fear on private investment, he would be doing everything in his power to get Republicans to STFU and quit sabotaging their base with frightening rumors.

31. *rapier* Says:

[October 31st, 2009 at 4:07 pm](#)

Of course asset prices are falling. We are in a period of debt deflation after a long period of asset inflation based upon monetary/credit expansion. Virtually every national politician of both parties including Obama are totally on board with expansionary monetary/credit policies. Nothing else matters for broad systematic asset price inflation. The problem now is the there is no way to expand credit anymore. Everyone is borrowed to the limit and past. That leaves the government to be the borrower of last resort and then too the Fed monetizing at a furious rate.

Asset inflation is the grease which keeps the real transaction economy cooking. That’s why Bush and now Obama stared into the abyss and said let’s bail out the financial giants and borrow every dime possible. I doubt it will be successful but every investor in the world should hope so.

32. *Bob Roddis* Says:

[November 1st, 2009 at 12:23 am](#)

Asset inflation is the grease which keeps the real transaction economy cooking.

What total nonsense. Goods and services trade for other goods and services. Money is merely a medium of exchange and a **MEASURE** of exchange.

Constantly diluting the supply and value of fiat currency does nothing except to rob holders of the existing money of their purchasing power and to distort the investment and capital structure leading to a bubble that must burst. How can one measure value when the currency is constantly being diluted? It's like trying to play football with the first-down chain constantly being shortened.

There is nothing to fear from deflation in any event. Once the Keynesian bubble has been exposed for what it is, people need to find out what goods and services are really worth. Further, deflation wouldn't occur in the first place without prior Keynesian money dilution.

This Keynesian nonsense will be the death of us all.

33. *JonF* Says:

[November 1st, 2009 at 1:51 pm](#)

Re: why should Americans have incomes so much higher than 4 billion other humans.

Hmm. why doesn't that bit of moralizing apply to other First World nations? Why aren't we seeing big drops in income in, say, France or Australia in the cause of justice?

Re: If the expectations are for higher taxes, more regulation, and more uncertainty, it will stay sidelined.

As someone said above if this were the case, we ought be seeing a rush to spend and invest now before the boom is lowered. (I do agree with you about SarbOx though; and it's thoroughly useless at preventing the sort of flim-flammery it was supposed to address)

Re: There is a sense of no confidence in this administration.

Why do you need confidence in the administration? Unless maybe you are a vendor selling to the government? Economic decisions should be made on economic grounds without reference to who is in the White House. Making financial decisions for political reasons is frankly asinine.

34. *stuart* Says:

[November 1st, 2009 at 6:55 pm](#)

Well lets see, what posible reason is there that investment might have fallen:

*A fall in output means that theres increased capacity in existing businesses so that they have no need to invest

*Interest rates available arent nearly as low as the official rate as risk premiums have soared, therefore less investment

*Investment is a positive function of expected growth, if you expect growth to be higher you expect profits too be higher so you invest in increasing capacity

*Or it could be businesses are 'scared to death of higher taxes, inflation, health care mandates, increased labor regulation, and other profit-killers'

Surely there is no other explanation!

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