The Global Financial Resource Curse
(joint with Gianluca Benigno and Luca Fornaro)

Since the late 1990s, the United States has received large capital flows from developing countries - a phenomenon known as the global saving glut - and experienced a productivity growth slowdown. Motivated by these facts, we provide a model connecting international financial integration and global productivity growth. The key feature is that the tradable sector is the engine of growth of the economy. Capital flows from developing countries to the United States boost demand for U.S. non-tradable goods, inducing a reallocation of U.S. economic activity from the tradable sector to the non-tradable one. In turn, lower profits in the tradable sector lead firms to cut back investment in innovation. Since innovation in the United States determines the evolution of the world technological frontier, the result is a drop in global productivity growth. This effect, which we dub the global financial resource curse, can help explain why the global saving glut has been accompanied by subdued investment and growth, despite low global interest rates.