

Marginal Q: An Institutional Search for an Unobservable Variable

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Unlike traditional capital accumulation theory that links rapid capital accumulation with an expansion of capital's distributive share, the modified marginal Q theory contained herein shows just the opposite. I search for the movement, but not the actual measurement of marginal Q— an unobserved variable that is the main driver of growth in William Brainard's and James Tobin's investment theory. I show that the output-investment ratio can proxy for marginal Q and is the result of a race between debt generated free cash (expressed as a fraction of investment) and an even faster rise of capital's share. As a consequence of the race's outcome, marginal Q—in contrast with average Q—has likely declined. This decline helps explain the observed long term secular decline in the growth rate of corporate gross investment.

Key words: Tobin's Q, Marginal Q, Investment Growth

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