The U.S. is experiencing a capital spending boom, led by investment in information processing equipment, primarily computers. Business fixed investment has risen from 9% of GDP in 1991 to 11% thus far this year. The expansion is particularly welcome after the torpid pace of capital accumulation in the 1980s.

Although vital to a sustained economic expansion, investment in capital is not its sole contributor. Economists often identify three broad sources of economic growth: expansion of the capital stock (investment), increases in the available workforce (labor hours), and improvements in total factor productivity. Changes in this last component capture the effects on economic growth of such intangibles as advances in education and technology, which enhance the ability of capital and labor to produce goods and services.

Between 1951 and 1993, the U.S. economy grew at a 3% average annual rate, and each of these three factors contributed equally to the advance. The overall pace of U.S. economic growth, however, has decelerated because of the slower rate of capital accumulation and more hesitant advances in total factor productivity. A flattening of the capital-to-labor ratio is also evident after 1970. Overall growth in labor hours has held fairly steady, despite the erratic behavior of many of its underlying components.