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The savings-inflation puzzle

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Abstract

We find that inflation does not unanimously decrease savings in the US during the postwar period. This result is puzzling as it contradicts the implications of most monetary general equilibrium models.

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Notes

[1] In previous work on the effect of inflation on the portfolio allocation, Tobin (1965) assumed a constant savings rate.

[2] If labour supply is elastic, inflation may increase or decrease the savings rate depending on the functional form of utility.

[3] We compute effective capital tax rates by following the strategy described in Mendoza et al. (1994). Accordingly we rely on data obtained from the OECD Statistical Compedium annual series (Revenue Statistics, National Accounts I and Economic Outlook). See Mendoza et al. (1994), pp. 300–6, for further details.

[4] Our findings are almost the same if we apply stochastic trend rather than deterministic trend methods. The results are summarized in an appendix that is available from the authors upon request.

[5] The application of an HP filter with a standard weight of 100 for annual series (Hodrick and Prescott, 1997) produces fairly similar estimates. We also tried some bandpass filters. However, as it is more parsimonious, with regard to degrees of freedom, the HP filter seems better suited in the presence of the short series at stake.

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