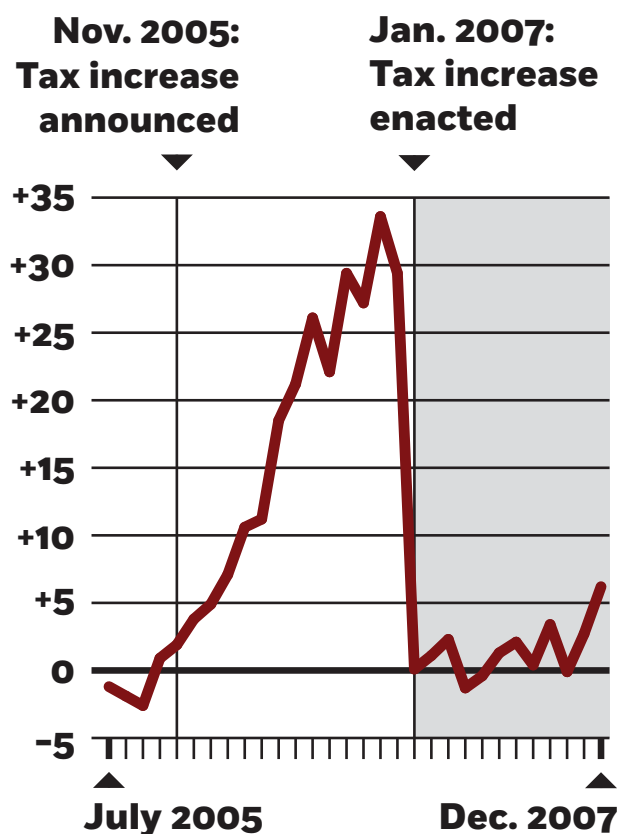


CBR BRIEFING #66

How announcing a sales-tax hike could boost consumer spending

Germans' readiness to make purchases

Percentage-point difference compared to similar households outside Germany and relative to before the tax was announced



→ With interest rates already very low in the eurozone, some economists propose using unconventional fiscal policy to stimulate growth. Announcing future sales-tax increases is one such policy, according to a research team that includes Chicago Booth's Michael Weber. They find empirical evidence in Germany, where a pre-announced Value Added Tax increase raised consumers' appetite to spend.

→ The announcement of the tax hike increased expectations of inflation, encouraging people to spend. Germans' willingness to buy durable goods increased faster than that of other European households, the difference peaking at 34 percentage points.

→ After the tax hike was enacted, willingness to spend remained comparable to the period before the tax was announced. This suggests that the approach would be effective in increasing overall consumption without driving up government spending.

Francesco D'Acunto, Daniel Hoang, and Michael Weber, "The Effect of Unconventional Fiscal Policy on Consumption Expenditure," Working paper, August 2016.