THE FEDERAL RESERVE BANK of ST. LOUIS

NEWS RELEASE

The Federal Reserve Bank of St. Louis
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Contact:
Charles B. Henderson (314) 444-8311

St. Louis Fed's *Review:*
Credit Card Debt Between 1992 and 1995; Measuring Real Investment Trends in the United States and Abroad; Inflation, Real Interest Tax Wedges, and Capital Formation; What Has Become of the "Stability-Through-Inflation" Argument?

ST. LOUIS — The latest edition of ***Review***, the Federal Reserve Bank of St. Louis' journal of economic and business issues, features the following articles:

• **"Still Charging: The Growth of Credit Card Debt Between 1992 and 1995."** In recent years, consumer revolving credit outstanding more than doubled. This measure of aggregate debt, especially credit card expenditures, has generated much discussion about its cause, sustainability and implications. Economist Peter S. Yoo used individual household data from the 1995 Survey of Consumer Finances to update a previous study he did for *Review*. He found that the survey data suggest that the changes that have occurred between 1992 and 1995 reflect a continuing trend. Specifically, the increases in credit card debt in the last several years are due to higher average credit card debt per household, not from more households with access to credit cards.

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• **"Measuring Real Investment: Trends in the United States and International Comparisons."** The standard measures of nominal capital formation show that the proportion of GDP the United States is dedicating to investment has been much lower than that of other developed countries throughout the last 25 years. Economists Milka S. Kirova and Robert E. Lipsey calculate a broader real measure of capital formation that includes household purchases of consumer durables, current expenditures on education, research and development, and military capital formation, as well as accounting for the price differences across countries over time. Their calculations show that U.S. investment has been close to that of other countries since 1970 and has been an above-average share of total output during 1990-94. Kirova and Lipsey conclude that, broadly defined, real capital formation per capita and per worker has not been lower, but rather 30 percent to 60 percent higher than in the other countries they studied.

• **"Inflation, Real Interest Tax Wedges, and Capital Formation."** Inflation magnifies the distorting effects of taxation when the tax treatment of interest income and expense is not fully indexed to inflation. The distortion involves a real interest tax wedge, which is the difference between the real before-tax interest rate that influences fully taxed investors and the real after-tax interest rate that influences savers. Economist William G. Dewald argues that reducing the real tax wedge by eliminating inflation or indexing would stimulate private saving and nonresidential investment but decrease tax receipts and the tax deductions that subsidize home ownership.

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• **"What Has Become of the 'Stability-Through-Inflation' Argument?"** Economists James B. Bullard and Alvin L. Marty summarize some popular arguments for positive, steady-state rates of inflation based on the idea that a certain amount of inflation stabilizes economic performance. Synthesizing a number of disparate results into a single framework and using a general class of money-demand functions, they found that the stability-through-inflation arguments have either been completely replaced or called into question.

Subscriptions to ***Review*** are free and can be obtained by calling (314) 444-8809. The publication is also available on the Bank's website: http://www.stls.frb.org.

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