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Price Passthrough without Intertemporal Substitution: Evidence from Germany's Temporary VAT Cut

Abstract:

We evaluate the effectiveness of an unconventional fiscal policy implemented during the first wave of the COVID pandemic in Germany. We rely on a comprehensive scanner dataset covering both durable and non-durable consumer goods to analyze the impact of the German VAT cut in July 2020 and the subsequent increase in January 2021 on consumer prices and quantities. Using comparable markets in other European countries as control groups, we estimate a roughly symmetric 75% pass-through of the VAT changes to retail prices. However, we do not observe significant quantity responses for durable and non-durable goods. We show that the implied elasticity of intertemporal substitution is very close to zero.

(Joint work with Günter W. Beck, Muzammil Hussain, Xavier Jaravel, and Sebastian G. Kessing)