Growth, Welfare Costs and Aggregate Fluctuations in Economies with Monetary Taxation

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There is large body of empirical literature devoted to study the relationship between inflation and long-run growth. Recently, levine and Renelt (1992) encouraged by new developments in growth theory investigated, within a unified framework, the effet of a number of variables on per capita growth. The authors found that there was no robust srelationship between the two variables. On the contrary, fisher (1991-1993) using the Levine and Renelt growth equation approach supports the convetional view that inflation is an important determinant of the rate of economic growth and that the effects of important determinant of the rate of economic growth and that the effets of inflation are stronger at low and moderate inflation levels. Levine and Zervos (1992) include in the same framework an index of economic policy and concluded that growth and low inflation low budget deficit are positively correlated. Additional evidence supporting a negative relationship between inflation and growth can also be found in De Long and Summers (1992) and De Gregorio (1993), among others. The predominantly negative correlation between inflation and growth observe in the data has not been properly rationalized in models where identical agents behave rationally and where money has a significant impact of the evolution of real variables. In monetary versions of the neoclassical growth model the quantitative importance of money is quite modest inducing only small growth and welfare effects and playing almost no role in explaing the fluctuations of real variables. Because of the same reason, these models have not been successful at identifying a channel through which inflation plays a more meaningful role in the economy. There are numerous plausible channels through which may affect growth and welafre. However, the implications of many of them have not been fully explored or the simply have not been successful. Feasible channels are nominally denominated depreciation allowances, partially indexed (This abstract was borrowed from another version of this item.)