

Diskussionsbeitrag / Comment with Reply

Vermögenspreise, Alterung und Ersparnis

Gibt es einen demografisch bedingten „Asset Meltdown“?

Asset Prices, Aging and Saving

Should We Expect an Asset Meltdown for Demographic Reasons?

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JEL E2, J1

Funded pension system, asset meltdown, life-cycle saving, widow's cruse.

Summary

In simple overlapping-generation models, the young save by purchasing assets from the old, who in turn finance their consumption by spending the proceeds. If household saving of a shrinking younger generation falls short of planned, constant asset sales by the old generation, asset prices might drop. This note argues that the above asset-meltdown argument holds only in case of a strict cash-in-advance constraint in a model with sharp demarcations between periods. Here, the shrinking size of the young generation establishes a supply-side constraint for production, and the old cannot realize the planned value of asset sales so that goods prices cannot be bidden up. In a more realistic setting of simultaneous and slow changes, only some flexibility and elasticity of the financial system is needed to resolve the cash-in-advance constraint. Excess goods demand then will produce rising prices. Then, necessarily additional savings (in the form of undistributed profits) arise as a flow-of-funds effect, which in turn help to maintain asset market equilibrium. Asset prices nevertheless might fall because of rising interest rates if monetary policy reacts to inflationary tendencies (if goods-supply constraints persist). But this line of reasoning is different from the shortage-of-saving myth.