



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### Discriminating Inflation

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06/13/2018

Alfons Weichenrieder and Eren Gürer: Price increases tend to burden low-income earners more



It is obvious that inflation may not hit everyone equally. For less wealthy households expenses for necessities, e.g. for food, rent and energy, make up a larger proportion of their budget than for richer households. If the prices of such goods increase more than those of luxury products do, this implies that

low-income households will face a higher price-increase rate for their individual consumer basket. The individual inflation rate may therefore differ from the general inflation rate depending on the consumption habits.

In a recent study ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3183723](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3183723)), we thus examine whether there is a systematic bias in the individual inflation rate at the expense of particular groups. The analysis of data from 25 EU member states from the years 2001 to 2015 shows that in most countries inflation tends to be at the expense of the poorer ones. For example, the annual inflation rate for the poorest ten percent in one country was on average about 0.7 percentage points higher in this period than it was for the richest ten percent. With an average inflation rate of 2.7 percent, this corresponds to a difference of just over a quarter of the general inflation rate.

The main reasons for this development are the costs of electricity, rent, private transport and food, which have risen above average. These goods make up a much larger share in the baskets of lower income groups. However, the effects are not equally pronounced in all countries: while households in Italy and Portugal were spared from this "discriminatory inflation", the Eastern European member states as well as the UK and Finland were particularly affected. In Finland and the UK, for example, inflation for the ten percent of the poorest households exceeded the rate of the richest ten percent by more than 12 percent.

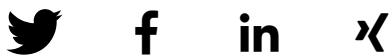
In Germany, the effect is more moderate. While it is known from other studies that the gap between the available nominal incomes widened in Germany, the impact of inflation on income distribution, which has been neglected in previous studies, is rather small. It amounts to about one tenth of the previously measured increase in inequality in the relevant years. However, this should not obscure the fact that in a German representative sample the consumer basket of the lower ten percent increased by about 4.5 percent more than the consumer basket of the top ten percent. (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/52-weichenrieder.html>)

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**More about this topic:** Eren Gürer and Alfons Weichenrieder: Pro-Rich Inflation in Europe: Implications for the Measurement of Inequality ([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3183723](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3183723)), Goethe University, SAFE Working Paper 209, May 2018.

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