

Discussion of:

Welfare and Distributional Impact of Soaring Prices in Europe

D. M. Sologon, C. O'Donoghue, J.Linden, I. Kyzyma and J. Loughrey

Mattia Ricci

European Commission, Joint Research Center

June 15, 2023

Summary

- Evaluate the impact of inflation in 2022, via consumption expenditure, across and within six EU countries (i.e FI, HU, IE, LT, LU, PT).
- These MS feature significant differences in inflation (~ 3 times in LT wrt FI) and consumption (food budget share ~ 3 times in LT wrt LU).
- Authors analyse two main metrics:
 - ① **The redistributive effect** measuring inequality before and after the price changes at constant consumption (no behavioural responses)
 - ② **The welfare impact** measuring changes in household welfare in CV: how much money should households be given to compensate them for inflation (while considering their consumption change in response to it).
- With the latter authors account for the impact of inflation **considering behavioural responses.**

Main findings

- The distributional impact varies across MS. The impact is regressive in LT and IE, progressive in FI and mostly flat elsewhere.
- Despite cross-country variability, the distributional impact of inflation over consumption expenditure is less substantial than expected.
- Overall, behavioural responses do not seem to play a significant role. Given that inflation drivers were mostly necessity goods such as food and housing-related energy, the scope for substitution is limited.

Evaluation

- The paper offers a comprehensive assessment of the impact of inflation **through the consumption channel** in selected MS.
- Through the RS decomposition it nicely disentangles the drivers of the redistributive effect of the inflationary shock, i.e: (i) its size and (ii) its disproportionality.
- The analysis of **the demand response** constitutes an important contribution to the literature on the impact of the cost of living crisis over households which mostly assumes constant quantities (e.g: Balint, 2022, Curci et al., 2022, Basso et al., 2022, Capéau et al., 2022).

Some suggestions

- Discuss the limitations. Inflation affects inequality through many direct (e.g consumption channel, Fisher effects) and indirect (e.g URE, wage channel) channels. See, e.g: Cardoso et al. (2022) and Tzamourani (2021). Your paper focuses on the **consumption channel**.
- Reference the related literature. See, e.g, the papers quoted in this presentation. Basso et al. (2022) also investigates substitution effects in Spain and found them to be small.
- Put RS in perspective. The decomposition of the RS is truly helpful. However, it is hard to make sense of the RS numbers (How big impact on inequality is a *RS* of -0.0052 in LT?)

Thank you!

Balint, M. (2022). The effect of rising energy and consumer prices on household finances, poverty and social exclusion in the eu. Technical report, Joint Research Centre (Seville site).

Basso, H. S., O. Dimakou, and M. Pidkuyko (2022). How inflation varies across spanish households. *Información Comercial Española, ICE: Revista de economía* (929), 85–103.

Capéau, B., D. Güner, N. S. Hassan, J. Vanderkelen, T. Vanheukelom, S. Van Houtven, A. Decoster, et al. (2022). We are all facing the same storm, but not all are in the same boat. a distributional picture of the purchasing power effects of the 2021-22 energy price shock and compensating measures. Technical report, ULB–Universite Libre de Bruxelles.

Cardoso, M., C. Ferreira, J. M. Leiva, G. Nuño, A. Ortiz, T. Rodrigo, and S. Vazquez (2022). The heterogeneous impact of inflation on households' balance sheets. *Red Nacional de Investigadores en Economía Working Paper 176*.

Curci, N., M. Savegnago, G. Zevi, and R. Zizza (2022). Gli effetti redistributivi dell'inflazione: un'analisi basata su un modello di

microsimulazione per l'italia. Technical report, Joint Research Centre (Seville site).

Tzamourani, P. (2021). The interest rate exposure of euro area households. *European Economic Review* 132, 103643.