Study finds that rich retirees are the main losers from inflation

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How would distribution of wealth change if the United States were to enter a period of inflation? A study from the December issue of the *Journal of Political Economy* finds that even mild inflation can lead to substantial redistribution of nominal assets from lenders to borrowers, specifically, the transfer of wealth from older, wealthier households to younger, middle-class households.

"Inflation affects all nominal asset positions, not just cash positions," write Matthias Doepke (University of California, Los Angeles and National Bureau of Economic Research) and Martin Schneider (Federal Reserve Bank of Minneapolis and New York University). "As a result we find that even moderate inflation leads to substantial wealth redistribution."

Young, middle-class households have the largest ratios of net debt to net worth. Doepke and Schneider find that borrowing in the form of mortgage loans positions young, middle-class households to be the greatest beneficiaries in the event of inflation. In contrast, old households in the top 10 percent of net worth keep a large part of their savings in long-term bonds.

In a scenario where inflation increased at five percentage points more than expected over the next decade, rich retirees would be hurt more – relative to net worth – than either the poor or the middle class, accounting for nearly 60 percent of total household-sector losses. Across sectors, inflation is also a tax on foreigners, the researchers find. Foreign holdings of U.S. nominal assets – that is, assets without any intrinsic value – surpassed that of domestic households in the early 2000s.

"Our results suggest that fiscal policy can play a central role in the shaping of the effects of an inflation episode," write the authors. "Indeed, in all of our experiments the government is a major winner, which implies that fiscal policy has to adjust in some dimension to satisfy the government budget constraint."

Source: University of Chicago

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