

Inflation-Inequality Puzzle: Is it still apparent?

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Recently US economy is facing inflation hurdle, which is running at 30 year high. Using inequality and inflation data that are available at a high frequency, i.e. on a quarterly basis for over 30 years, we show evidence that inflation causes swings in income distribution rapidly. Our results suggest that the dynamic response of inequality to changes in inflation alters over a four-quarter period. Specifically, we show that the contemporaneous impact of inflation on inequality is negative; however, after three quarters the impact becomes positive and stronger in magnitude. From our results we learn that over a one year period, higher inflation would exacerbate income inequality in USA. It should be noted that the size of the impact on income inequality weakens over the period post 2008. We find evidence of the inflation-inequality puzzle existence. Specifically, at low inflation regimes, increases in inflation correspond with contemporaneous decrease in inequality. During the high inflation regime, higher inflation adds to upsurges on inequality.