



ELSEVIER

Contents lists available at ScienceDirect

Economic Systems

journal homepage: www.elsevier.com/locate/ecosys



Inflation aversion in transition countries: Empirical evidence from the Baltic States



Michael Berlemann ^{a,b,*}

^a Helmut-Schmidt-University Hamburg, Faculty of Economics & Social Sciences, Chair of Political Economy & Empirical Economics, Holstenhofweg 85, 22043 Hamburg, Germany

^b CESifo, Munich, Germany

ARTICLE INFO

Article history:

Received 28 May 2012

Received in revised form 25 January 2014

Accepted 3 February 2014

Available online 4 August 2014

JEL classification:

E31

E61

Keywords:

Inflation

Inflation aversion

Transformation countries

Preferences

Hyperinflation

ABSTRACT

In command economies, inflation is either absent or at least unrelated to supply and demand. However, when the economies in Eastern Europe started transforming into market economies, they suddenly experienced high and volatile inflation rates. Transformation countries are therefore interesting laboratories for studying individual inflation aversion. In this paper we study the level and determinants of individual inflation aversion in the three Baltic countries. Using data from 11 waves of the Eurobarometer survey, we find age, education and the macroeconomic situation to have significant effects on the likelihood to mention inflation among the most important problems facing the country. Moreover, we find the populations of all three Baltic countries to be significantly more inflation averse than the population of the United Kingdom, a western democracy with a long tradition as a market economy. We attribute this finding to the specific experiences of the Baltic populations with inflation.

© 2014 Elsevier B.V. All rights reserved.

1. Introduction

It is a well-documented fact that people in general care about inflation. Shiller (1997) reports the term “inflation” to be the most common economic term among the general public. Based on the Inglehart question included in the early Eurobarometer surveys of the EU Commission, Hayo (1998)

* Tel.: +0049 4065412860; fax: 0049 4065412043.

E-mail address: Michael.Berlemann@hsu-hh.de.

finds the average share of people considering the fight against inflation to be the first or second policy priority to range between 39.5% (Denmark) and 73.8% (Portugal) in 12 EU member countries between 1976 and 1993. In more recent Eurobarometer surveys, where respondents can choose from a broader range of policy issues, the percentage of citizens of the EU member states stating inflation to be among the two most important issues facing the country is still significant. Average figures over the period of 2007 to 2010 range between 5% and almost 45% (see [Berlemann, 2011](#)). Happiness research delivers quite similar results. When studying happiness data from 12 European countries and the United States, [DiTella et al. \(2001\)](#) find average happiness to be significantly higher when inflation is low.

A number of studies have engaged in analyzing the determinants of inflation aversion at the individual level (see e.g. [Fischer and Huizinga, 1982](#); [Rose, 1997](#); [van Lelyveld, 1999](#); [Easterly and Fischer, 2001](#); [Scheve, 2004](#); [Jayadev, 2006](#); [Berlemann, 2012](#); [Ehrmann and Tzamourani, 2012](#)). As yet, most empirical evidence has been derived from cross-section data. It therefore remains unclear in how far the results are driven by the macroeconomic circumstances at the time when the survey was conducted ([Scheve, 2004](#)). Moreover, most of the existing studies have almost exclusively focussed on highly developed western democracies.

Little empirical evidence is available for transformation countries at this point¹. In the light of the findings by [Hayo \(1998\)](#) and [Ehrmann and Tzamourani \(2012\)](#), this is a shortcoming. [Hayo \(1998\)](#) argues that individuals are not inflation averse by birth. Rather, the degree of individual inflation aversion evolves as a consequence of past and current inflation experiences. Moreover, this process is framed by the institutions under which these experiences are made. On the one hand, inflation performance depends on the institutional setting. On the other hand, the institutional setting might be influenced by occurring inflation, e.g. as a consequence of changing attitudes². In their recent study of inflation aversion in a sample of 23 countries, [Ehrmann and Tzamourani \(2012\)](#) have substantiated the view that inflation experiences have an influence on inflation aversion.

Whenever attitudes towards inflation evolve slowly in the course of time as a consequence of experienced inflation rates and the prevailing economic and social institutions³, transition countries are highly interesting laboratories for studying inflation aversion. In this paper we focus on the three Baltic States Estonia, Latvia and Lithuania. These three countries share a history of being part of the Soviet Union for almost 50 years. Throughout that time, open inflation was almost absent. When the Soviet Union started to collapse at the end of the 1990s, all three Baltic States experienced a period of hyperinflation followed by reforms of the monetary systems and the introduction of new currencies. All three Baltic countries opted for de-jure highly independent central banks, which might be taken as an indication that the Baltic population is quite averse to inflation. This view is reinforced when studying the European Commission's Eurobarometer survey, according to which the average number of respondents in Latvia, Lithuania and Estonia claiming inflation to be among the two most important issues facing the country between 2004 and 2009⁴ is high when compared to most other European countries.

In this paper we are interested in answering two questions. First, we study which factors determine inflation aversion in transition countries. We answer this question based on an empirical analysis of 11 succeeding waves of the Eurobarometer survey. While we find education and age to play a significant role in explaining individual inflation aversion in all three sample countries, we also find a good deal of country-heterogeneity. The second question we want to answer is whether in fact the Baltic countries are more inflation averse than western democracies. As a yardstick we use the United Kingdom, an old democracy with a long tradition as a market economy and comparatively stable inflation. More precisely, we study which degree of inflation aversion the Baltic countries would likely exhibit when operating under the same macroeconomic conditions as the United Kingdom. We find that the populations of the Baltic countries would still be much more inflation averse than that of the United Kingdom.

¹ Exceptions are the studies by [Rose \(1997\)](#) and [Berlemann \(2012\)](#).

² A similar line of argument can also be found in [Posen \(1993\)](#).

³ See also [Rose \(1997\)](#) for a discussion of this aspect.

⁴ The sample period consists of all years for which data on the Baltic States were available in the Eurobarometer survey.

Download English Version:

<https://daneshyari.com/en/article/5056547>

Download Persian Version:

<https://daneshyari.com/article/5056547>

[Daneshyari.com](https://daneshyari.com)