# Department SEMINARS


## Energy Prices, Inflation, and Distribution: A Simulation Model and Policy Analysis for Italy

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ABSTRACT

Rising energy prices following the Russo-Ukranian war generated the greatest inflation rise of the last decades in advanced economies. This paper uses the EUROGREEN data-driven macro-simulation model for the Italian economy (D'Alessandro et al., 2020; Distefano and D'Alessandro, 2023) to analyze the macroeconomic and distributional effects of energy price and mark-up shocks. The EUROGREEN dynamic framework follows a stock-flow consistent approach in line with Post-Keynesian Economics, also building on an input-output structure for the Italian economy. The interrelation between economic activity, employment, wages, and prices is formalized in a way compatible with the conflict inflation perspective (Rowthorn, 1977; Lavoie, 2022; Morlin, 2023). The simulations show how the energy price shock propagates through the input-output cost structure and reduces real wages, with a stronger impact on individuals at the bottom of income distribution. We introduce two different policies to analyze how inflation, distribution and output respond when compared to a baseline scenario. We consider a wage indexation policy, fully incorporating past inflation into wages; a Rent cap policy freezing rent prices for three years, a third scenario combines the two policies simultaneously. We find that wage indexation protects workers' incomes from price increases without leading to any accelerationist trends in inflation dynamics, albeit making inflation persistent over a longer time horizon. By protecting consumption, this policy also increases output and employment. The rent cap increases real wages and output when active, but does not provoke persisting effects after rent prices are relaxed. The best performance in terms of real wages and output appear in the scenario of combined policies, still under a persistent inflation.

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