Title
Exploring Relative Inflation Through the Vehicle of Champagne—
Measuring the Experience of Luxury
(A Working Discussion Paper)

I want to submit an abstract for:
Conference Presentation

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Keywords
champagne, relative-inflation

Research Question
Are income groups better or worse off today compared to the past?

Methods
Multiple time series of different champagnes, price relative to hours worked

Results
From entrée level luxury to flagship level, economic classes experience inflation differently

Abstract
How do people recognize when they were better off economically? Relative to what? The idea that there were “good old” days may be supported by the higher nominal value of the dollar from the past, but that inflationary concept does not take into account the improvements in technology and quality of life over time. If we only consider the price of a perpetually-changing basket of goods and services to define inflation, we are not capturing a concrete experience of inflation, just the change in value of the currency.
In 1994, William Nordhaus wrote:
During periods of major technological change, the need to construct accurate price indexes that capture the impact of new technologies on living standards is beyond the practical capability of official statistical agencies. The essential difficulty arises for the obvious but usually overlooked reason that most goods that we consume today were not produced a century ago.
Using CPI with its evolving indexes certainly has its place and value. However, the statistics necessary to incorporate the changes in the evolving technology and living conditions may be as Nordhaus wrote, “beyond...practical capability.” However, we can work out concrete, unchangeable units to measure something real about inflation, even as quality of life, income, and costs become nearly unrecognizably different from one century to the next.
The standard system of measuring inflation using CPI has its place. CPI does not, however, offer a way to understand if life is getting economically better or worse, given the extreme changes over time in what resources people at different income levels have access to. While the inflation rate from 75 years ago might make today’s
prices feel painfully high, positive changes in overall quality of life suggest we are living in relatively better economic times—though news headlines may suggest otherwise. Using a real, tangible good or product that has not changed over time can serve as an anchor to view the economic world through a near constant lens or prism. An anchor allows us to relativize the cost of other goods that are evolving at their own rate within their own product life cycle. Our anchor is champagne.

The purpose of this research is to show how different income groups are better or worse off today compared to the past by reviewing what happened to the relative price of champagne—a luxury good that has remained stable in terms of product, use, and means of production over the years—to their income. Are people better off today, or were they better off in the past—how can we tell? Inflation is measured in various ways, and historically it has always affected different socio-economic groups differently, but there has not been an objective measure of these differences. Consumer Price Index shows us generalities, but says nothing about the experience of inflation by different income quintiles.

Using champagne, we are able to measure price inflation on a consistent and precise manner for different income groups over a long period of time by asking how many hours of work each quintile would have to perform to obtain the necessary disposable income to purchase each of the champagne brands and their tiers (entry-level, mid-range, flagship). These are analyzed over time to see how inflation affects each income level. Using the datapoints of champagne prices, this research demonstrates the different experience of inflation by five wage earning groups over the past 75 years. This may appear to be narrow research, looking at only one thing—champagne—however this is a strategic research site because its character can offer insights and allow one to make observations about the effects of inflation on real lives, irrespective of whether or not champagne was actually purchased by people in these income groups.

The question of who is better off, is relative. What were the fond good old days, and what did that might mean? It may not quite have been the good old days, depending on who you are comparing yourself to. Relative to what? Relative to that year, or relative to the best ever?

How can it be that people think the best days are behind them? As things change, the bar of what is standard continues to be pushed up, so “better” never seems to happen compared to the past. Champagne is a product that hasn’t changed over time, and it has always been considered a luxury item. In that way it makes for a perfect product to use to ascertain relative inflation over time.

Concretely, we’re talking about champagne prices, but the broader implications of this is what it takes to get into luxury. To purchase champagne, what resources are required, and how difficult is it for someone to obtain them? From entrée level luxury to flagship level, economic classes experience inflation differently. Surprisingly, what we see is the absolute level of entrée is cheaper for all income quintiles over the seven decades described, as demonstrated by the prices of the entrée level of champagne in each brand. However, going up in luxury level, it has generally become more expensive in real inflation terms.

Comparing different income strata to different tiers of champagne, by determining how many work hours it would take to buy a bottle over time, we can use this concrete measurement of inflation to answer questions that ask when different groups of people were economically better off—based on their economic experience of their financial ability to access this archetypal luxury product, champagne.

In this way, the notion that we were economically “better off in the good old days,” can be objectively evaluated.

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