



BANCA D'ITALIA
EUROSISTEMA

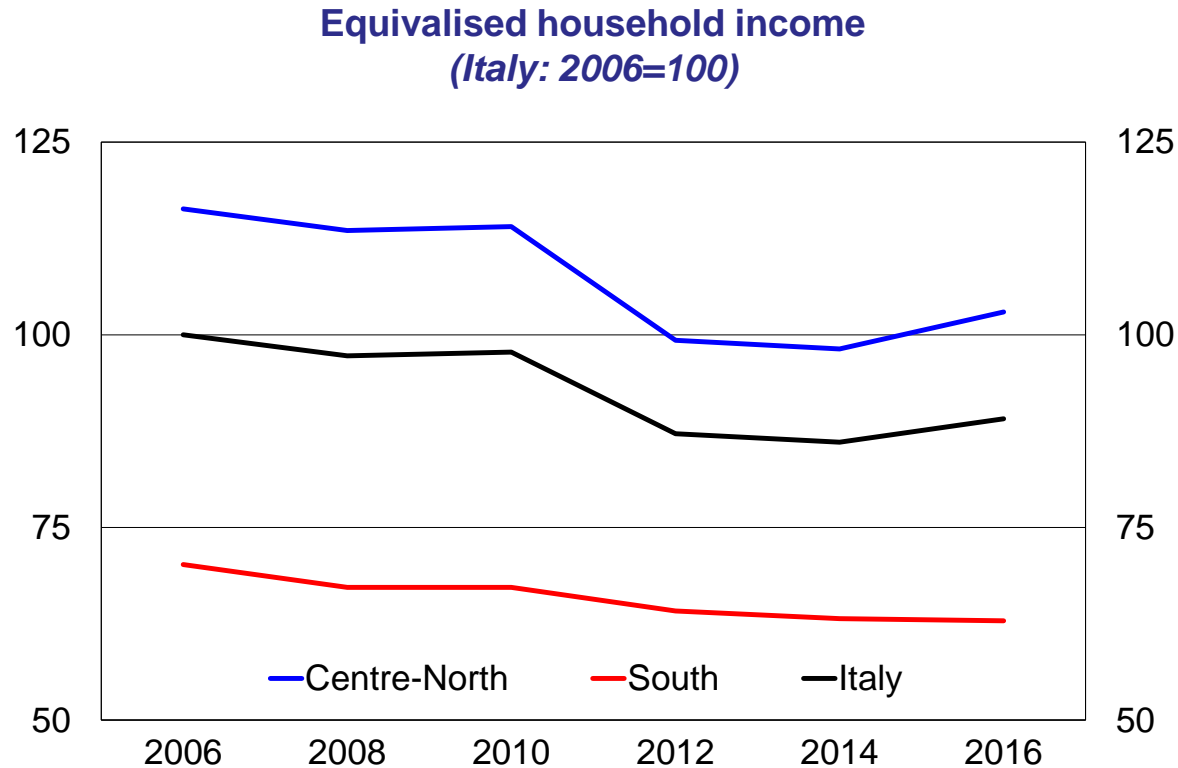
Recent Developments of Income Inequality in Italy: Geographical Differences

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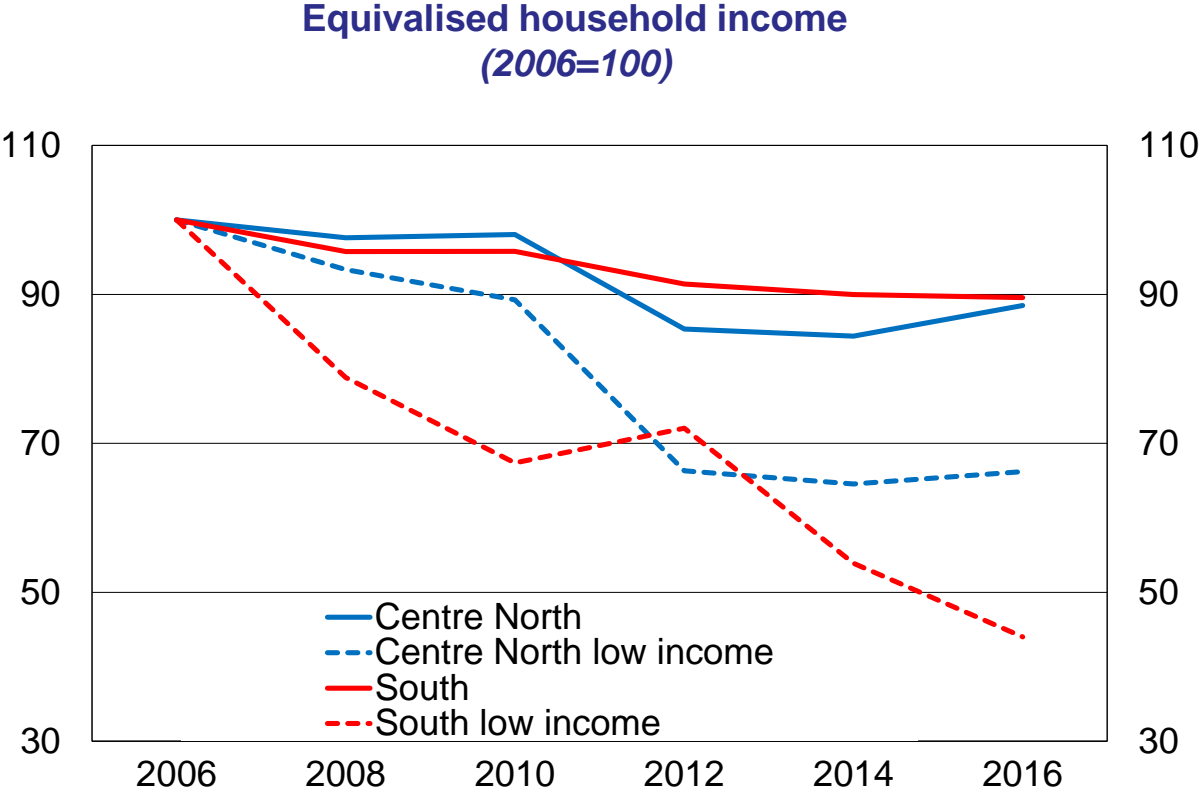
Rome, 19/10/2018

The (strong) North-South divide has not changed much...



- The North-South gap in household income is strong, around 40 percent in 2016.
- It did not change significantly compared with the pre-crisis years, despite the worse macroeconomic climate in the South.

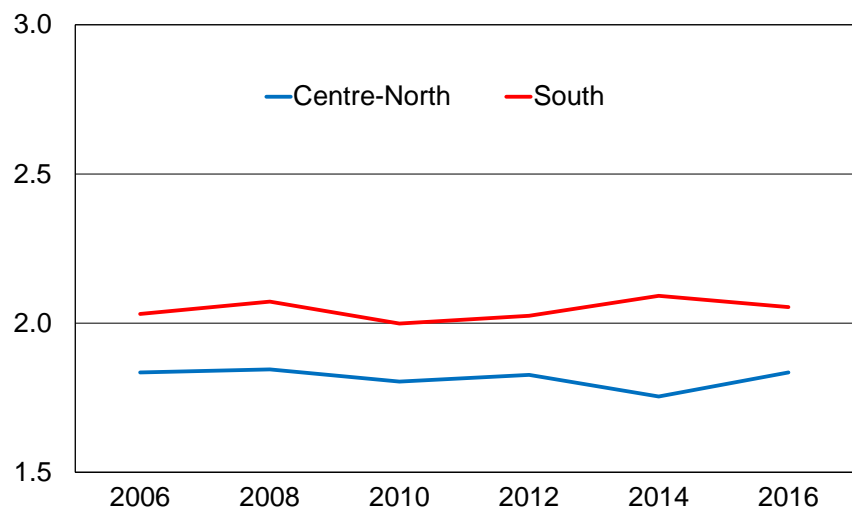
...but not for everyone



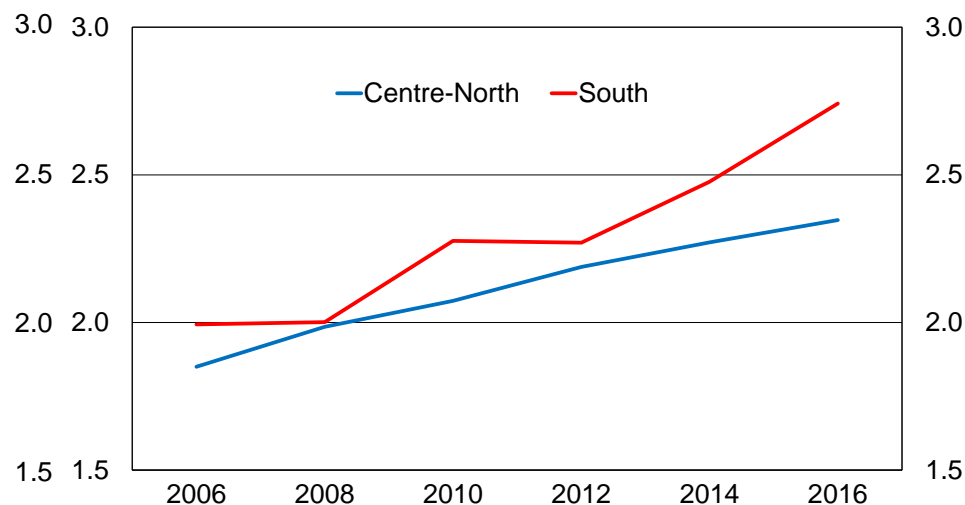
- Average household earnings in the lowest income decile fell by 8% on an annualized basis in the South, against 4% in the Centre-North.
- The share of individuals living in absolute poverty grew by 6.0 percentage points in the South, by 4.5 in the North and by 4.7 in the Centre.

In the South low-income households are poorer

High (p90) vs median income ratio
(values)

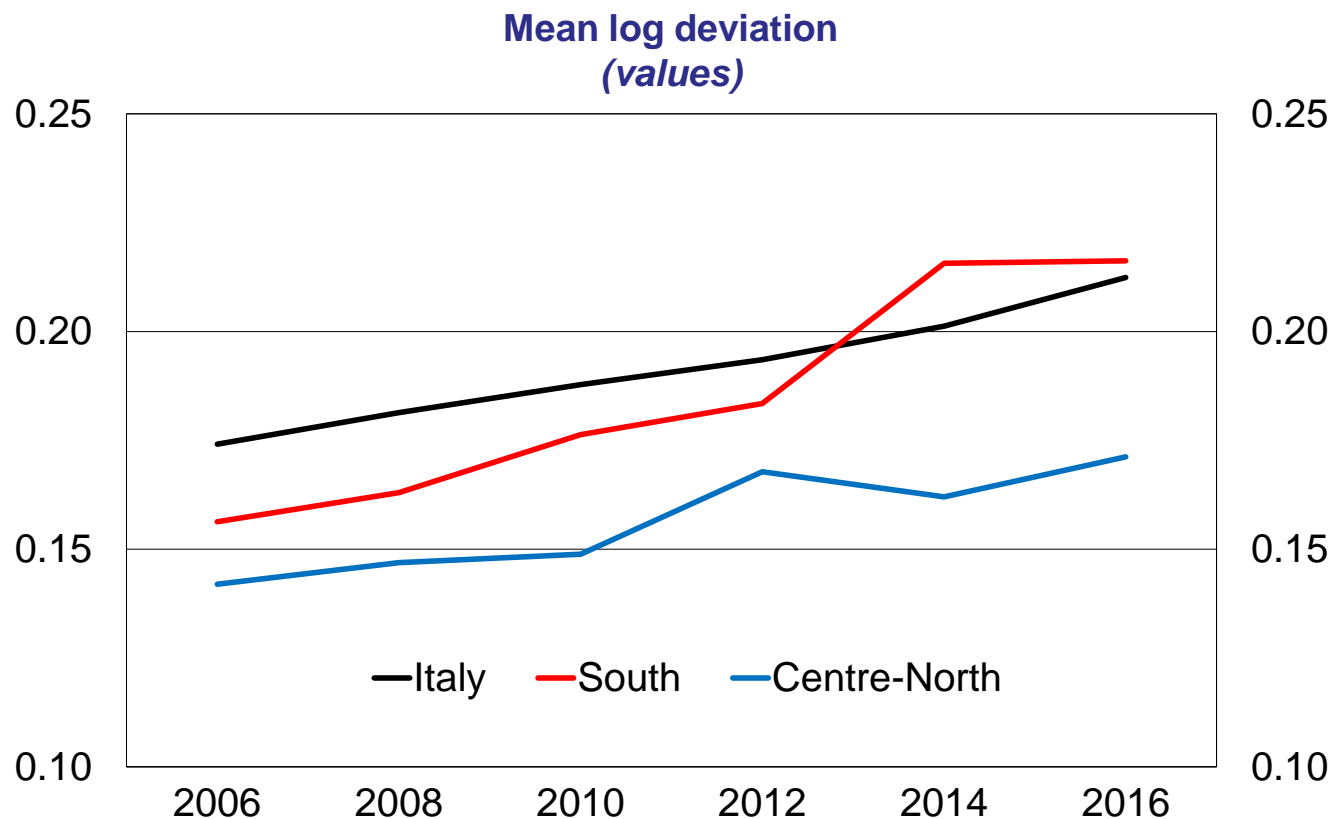


Median vs low (p10) income ratio
(values)



- The distance between rich and median households is similar in the two areas, while the low income families are further away from the median in the South.
- In other words, the North-South divide is stronger in the first decile (64%) than in the top decile (36%).

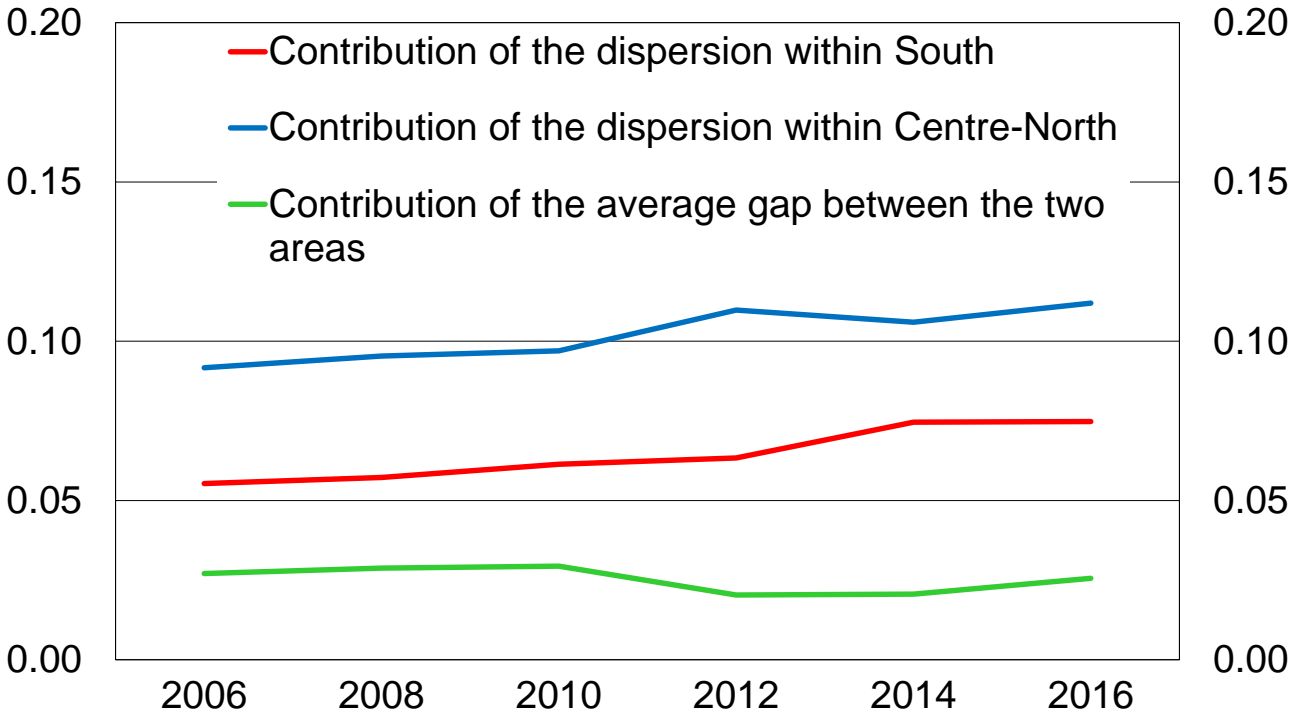
This implies that inequality within area increased...



- The drop in low incomes led to a strong increase in inequality within areas.
- In the Centre-North the rise in inequality has been driven by the growth of foreign-born population.
- In the South the inequality is significantly higher.

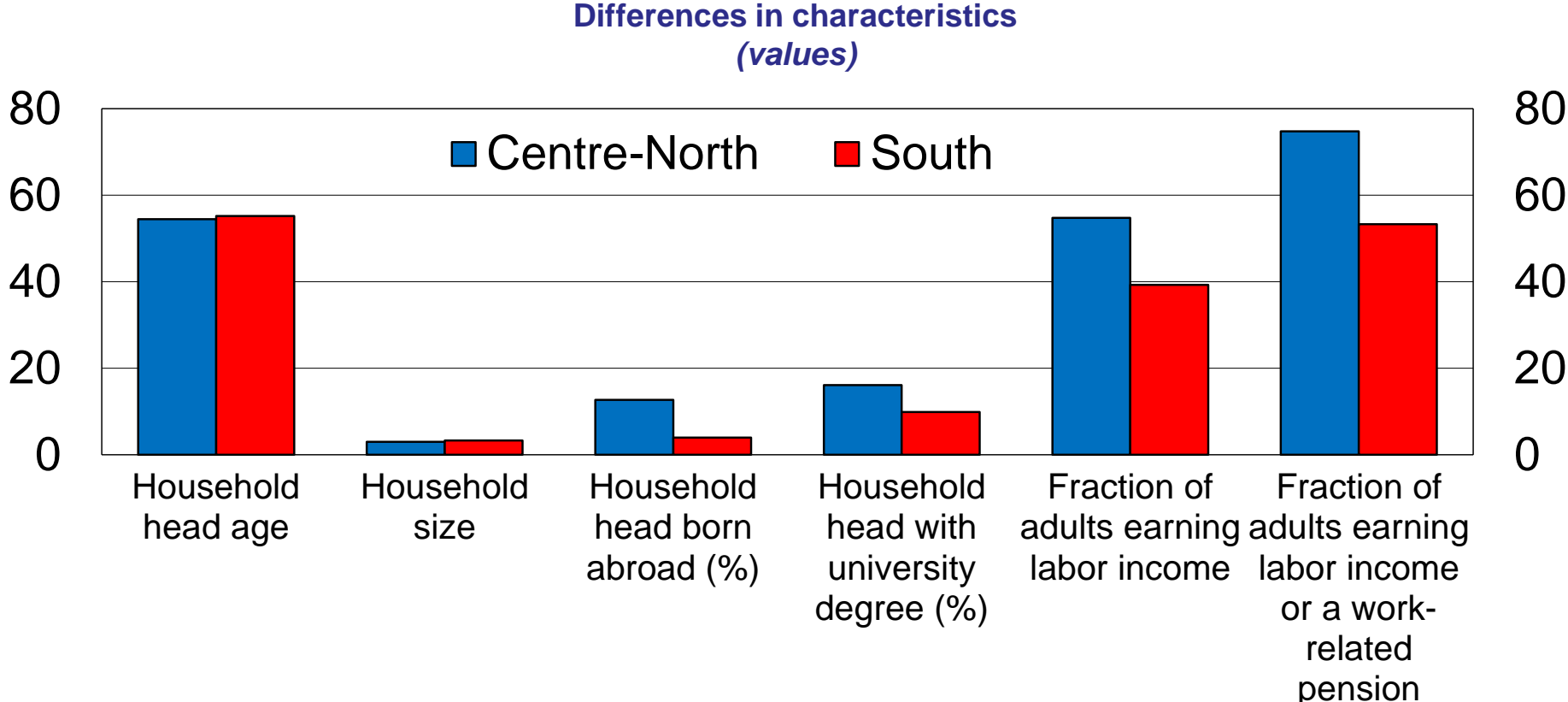
...while the contribution of the overall gap did not

Decomposition of the mean log deviation
(values)



- The growth in inequality was mostly within areas.
- The average gap between the two areas still explains 12% of the overall inequality at the national level.

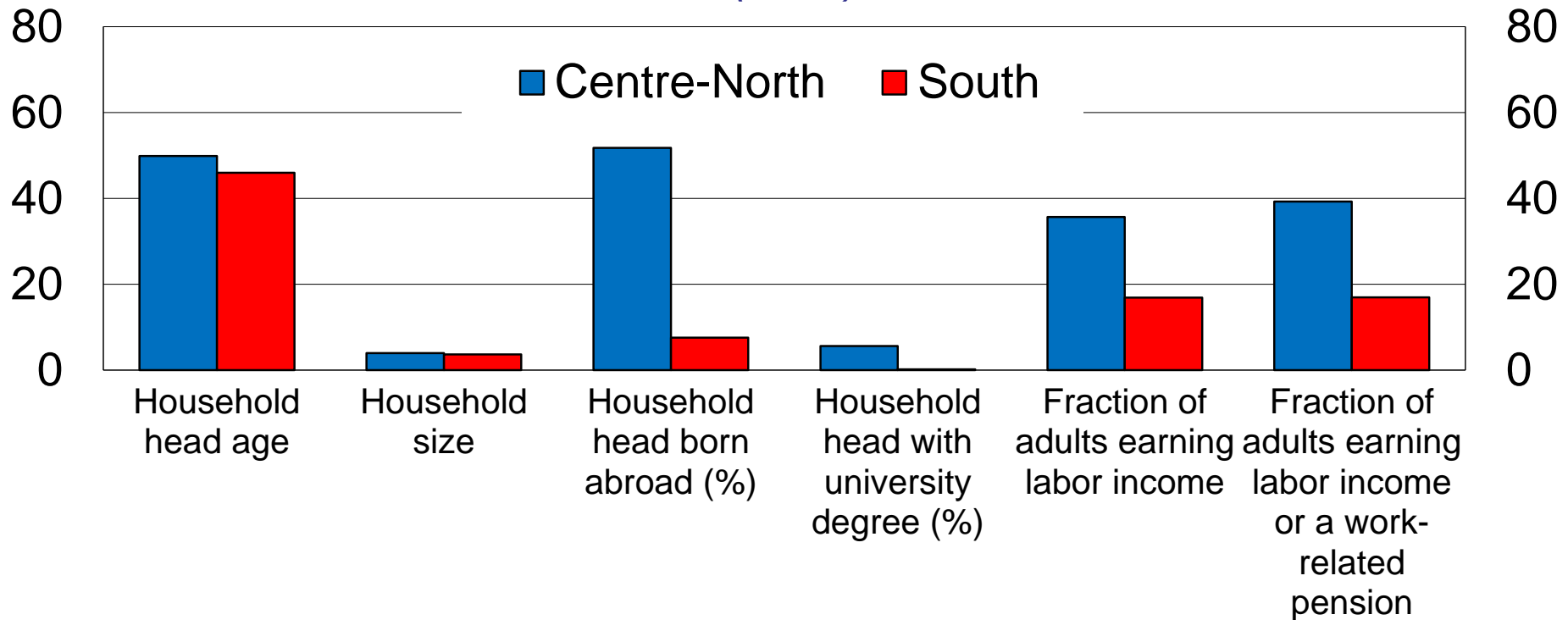
Households characteristics are different



- The households in the two areas are characterized by strong differences.
- These are particularly strong in terms of employment rate.
- The lower employment rate is also reflected in a lower fraction of elderly with work-related pensions.

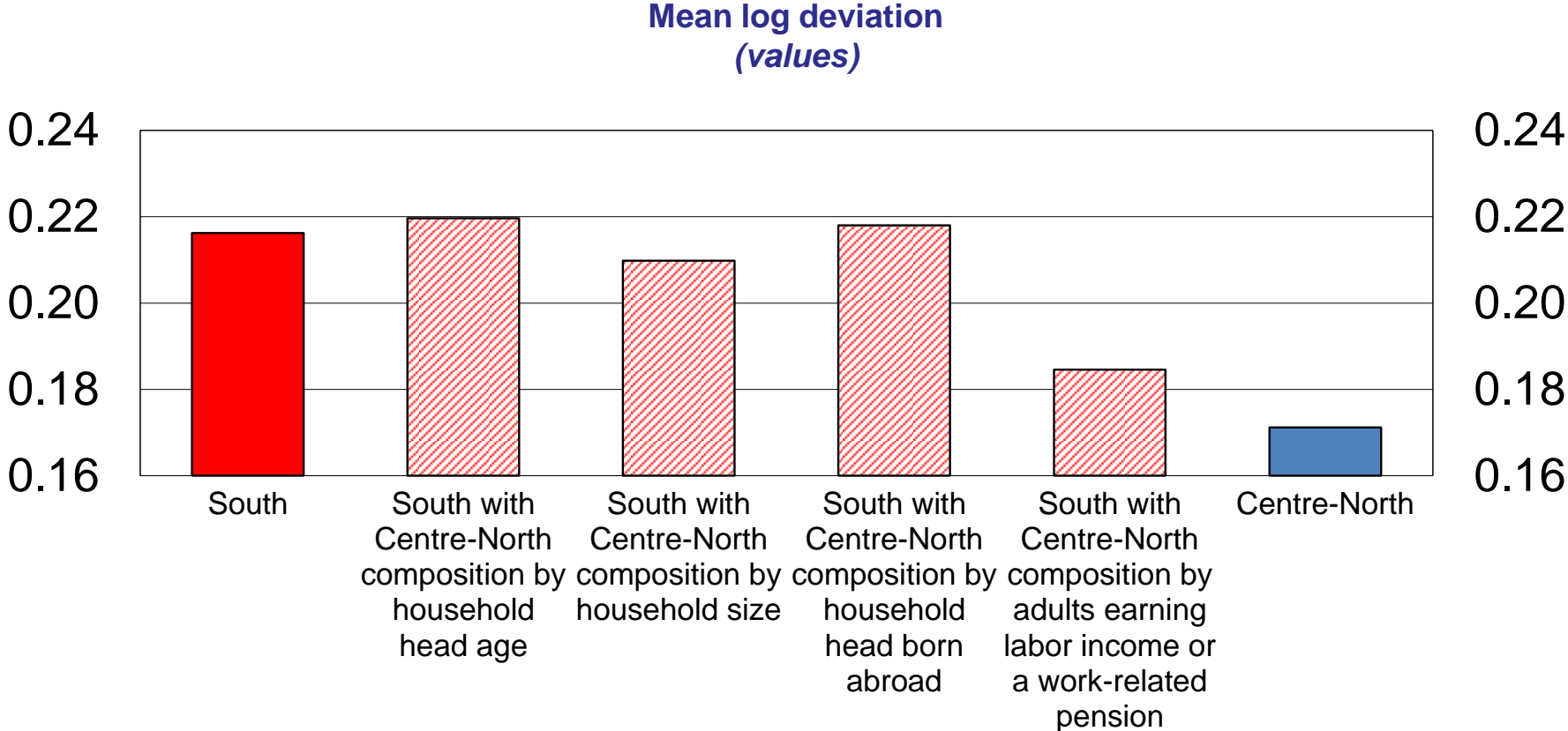
The differences among low-income households are stronger

Household characteristics in the first decile of income distribution
(values)



- The differences in labor force participation are strong even among low income-households
- In the Centre-North half of the low-income households (first decile) has a household head born abroad; in the South the fraction of adults employed is higher among foreigners.

Employment strongly influences the South higher inequality



- According to our calculations, demographic differences explain only a fraction of the larger income inequality within South.
- The key determinant is the low employment rate.

Summing up

- The increase in inequality since the recent crisis was mostly within areas.
- The South of Italy not only shows a lower average income, but also a much stronger inequality within the area.
- This stronger inequality is driven by low-income families, who are much further from their counterparts in Italy than the high-income households.
- The most important determinant of the higher income dispersion in the South is the low employment rate.
- If the composition of households in the South were the same as in the Centre-North in terms of adults earning labor income or a work-related pension, the difference in internal inequality levels between these two areas would decline by 70 per cent; the average income gap would narrow by about a third and overall income inequality in Italy by approximately a tenth.