

Distinctive Features of Inequality in a Stagnating Country

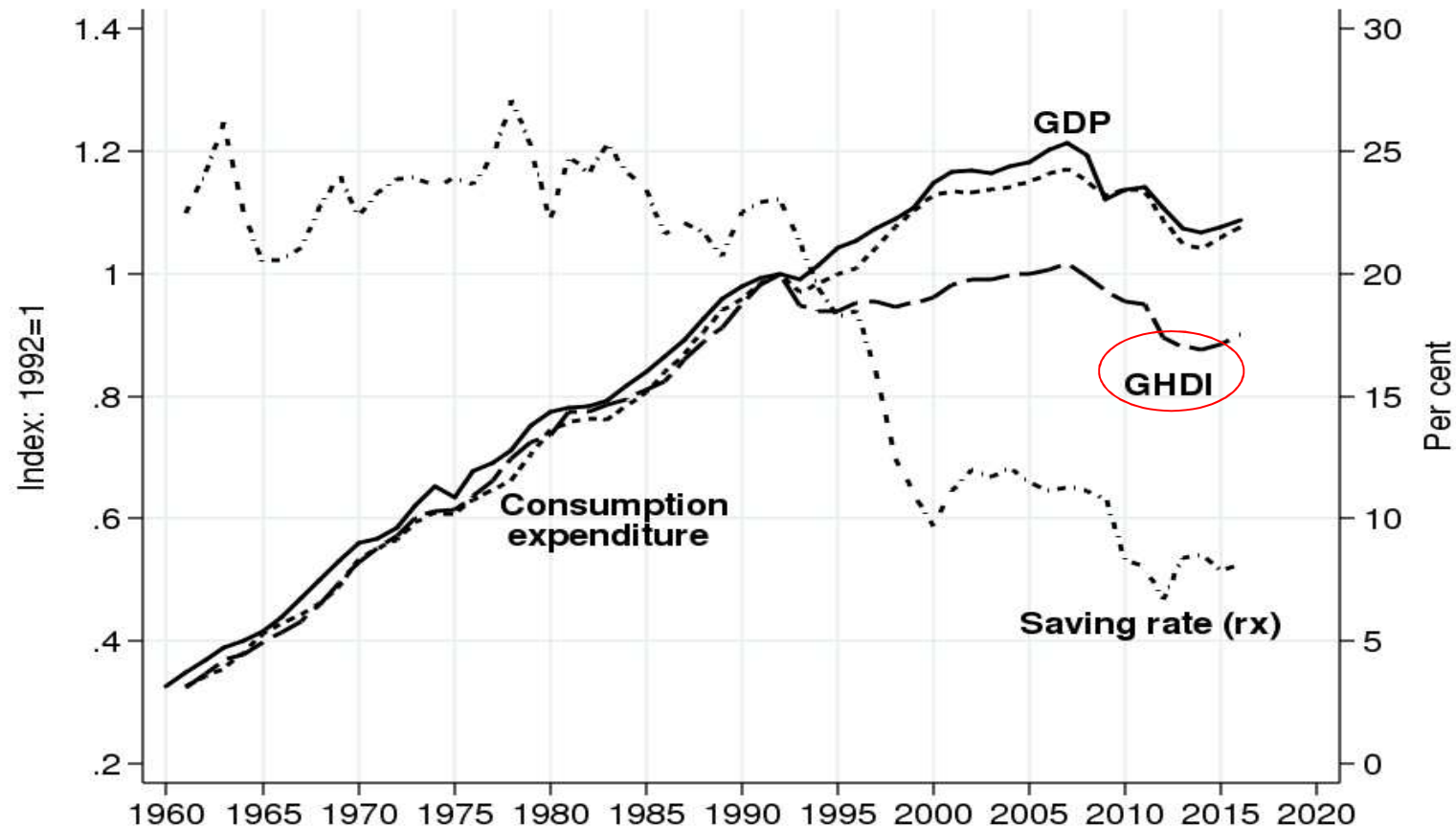
Roberto Torrini

Bank of Italy, Structural economic analysis directorate

Inequality in Italy before and after the crisis

- ❑ **The main impact of recent global trends is not a rise in income inequality but the economic decline of the country.** Italy has suffered from a loss of competitiveness and a marked slowdown of income growth before the crisis and from a generalized impoverishment during the great recession.
- ❑ The Italian case also shows that **country specific political choices are of paramount importance for inequality and poverty** and they should not be overlooked.
- ❑ The **Italian welfare state** exhibits **structural flaws that do not depend on global trends. Poverty and inequality are structurally at high levels.**

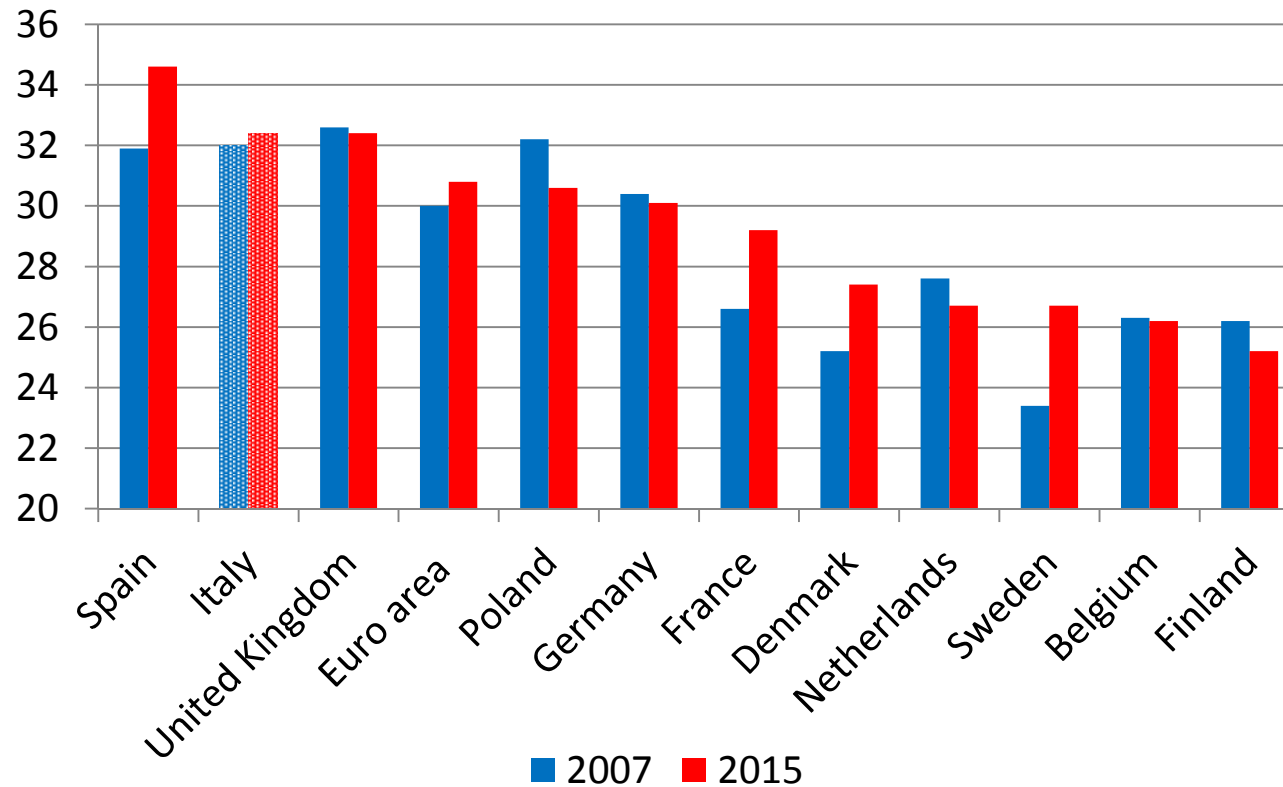
Italy has suffered from a stagnating economy since the end of the 1990s and from a huge drop of GDP and disposable income during the recent great recession. GDP back to the 1990s, Households Disposable Income (GHDI) back to the levels of the late 1980s



Brandolini, Gambacorta and Rosolia, (2017), Inequality Amid Income Stagnation: Italy over the last Quarter of Century

Italy is characterized by a high level of inequality; this partially reflects the North South divide

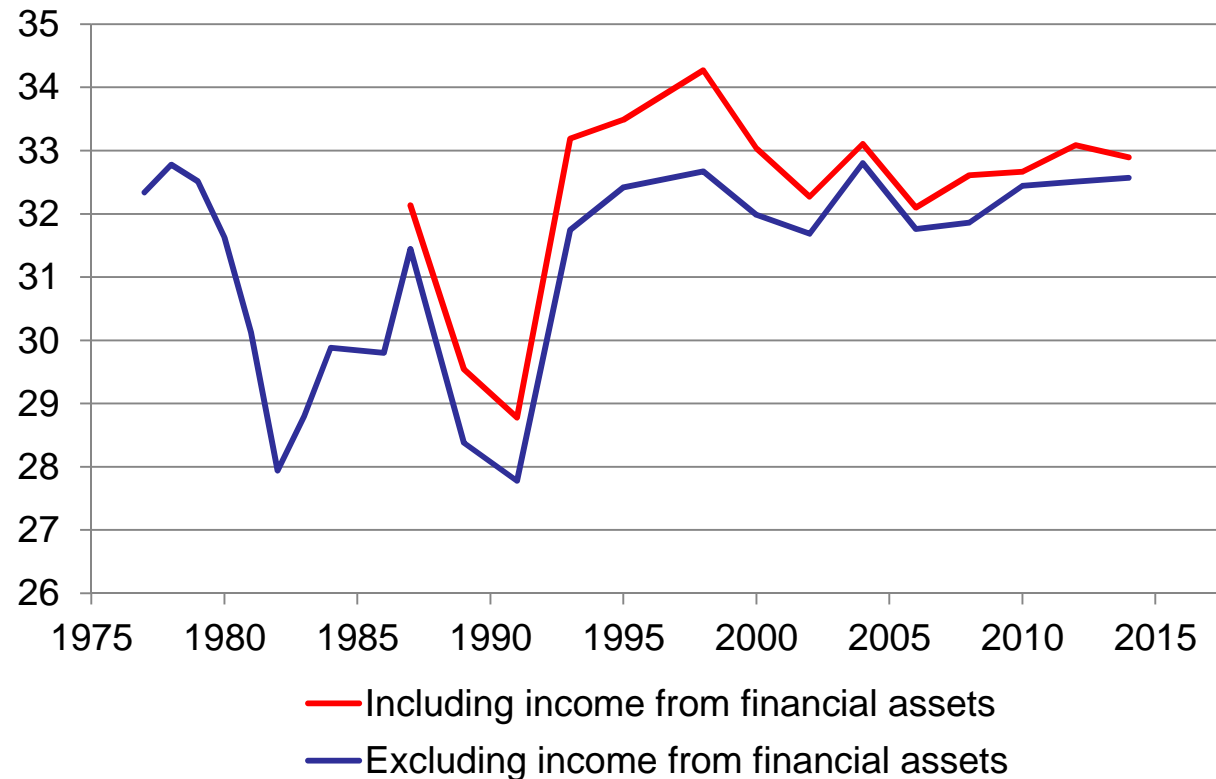
Gini Coefficient



Source: Eurostat

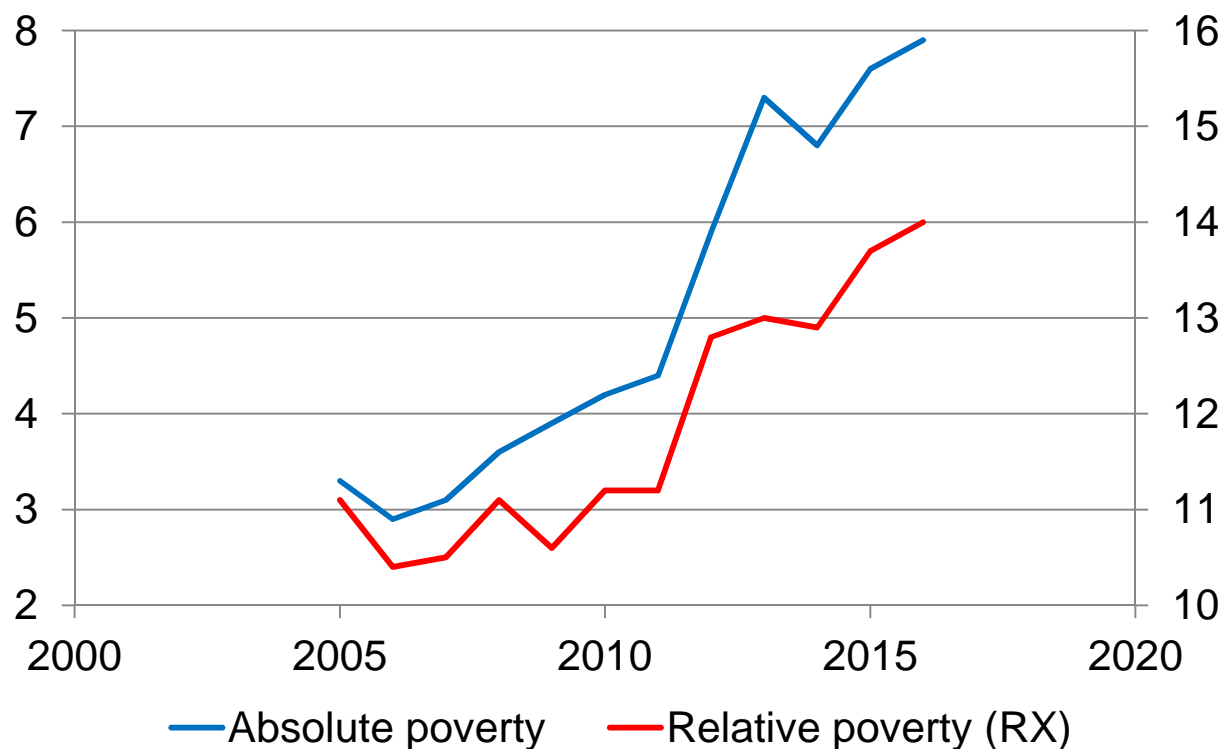
Inequality increased during the 1992 currency crisis, much less so during the double recession following the financial crisis

Gini index, equivalent income



Poverty has increased during the crisis because of a widespread impoverishment of the Italian population

Share of individuals in poverty



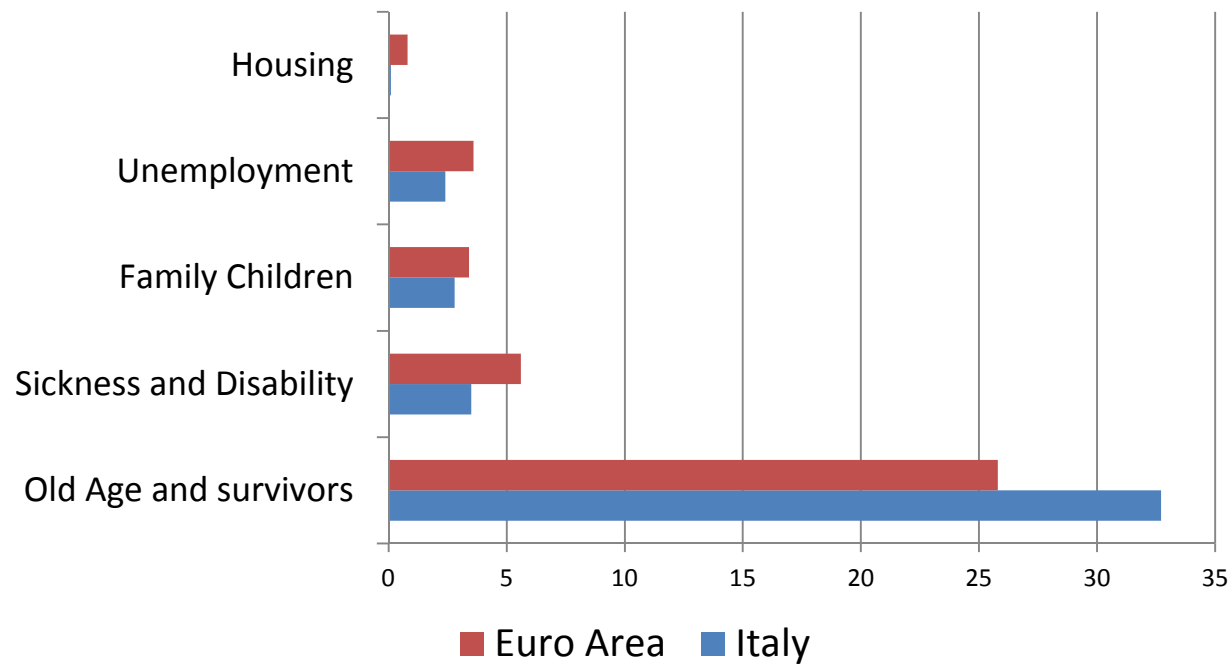
Source: Istat

Further facts about Italy:

- ❑ **Welfare policies are largely inadequate** to contrast poverty and disproportionately targeted to older people (actually older cohorts). **Italian welfare still suffers from a categorical approach**
- ❑ **Social spending is of little help for young workers and young households facing declining market opportunities**, (critical situation for those who do not inherit a house or cannot receive economic support from their parents)

Welfare: expenditure in social protection is disproportionately targeted to old people

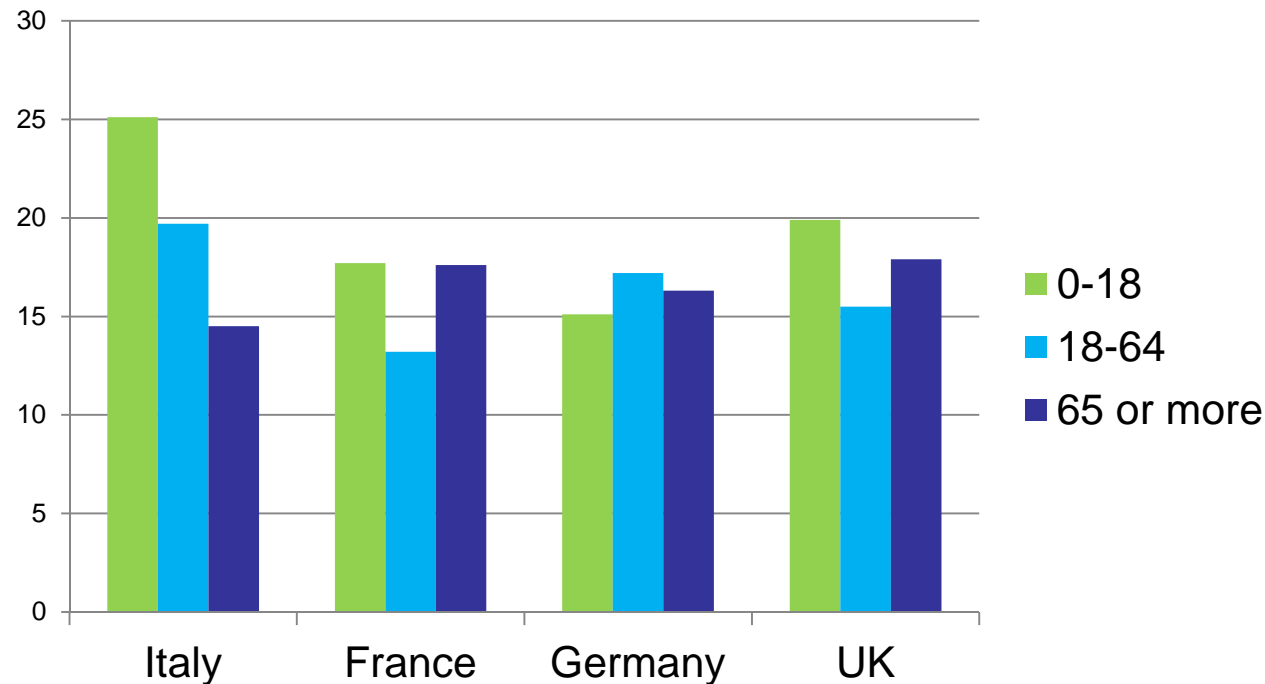
Expenditure in social protection, composition



Source: Eurostat

Welfare: Young people are not protected. Only this year an anti-poverty measure has been introduced after 30 years of debate...but funding is far from sufficient

Share of people at risk of poverty, 2014



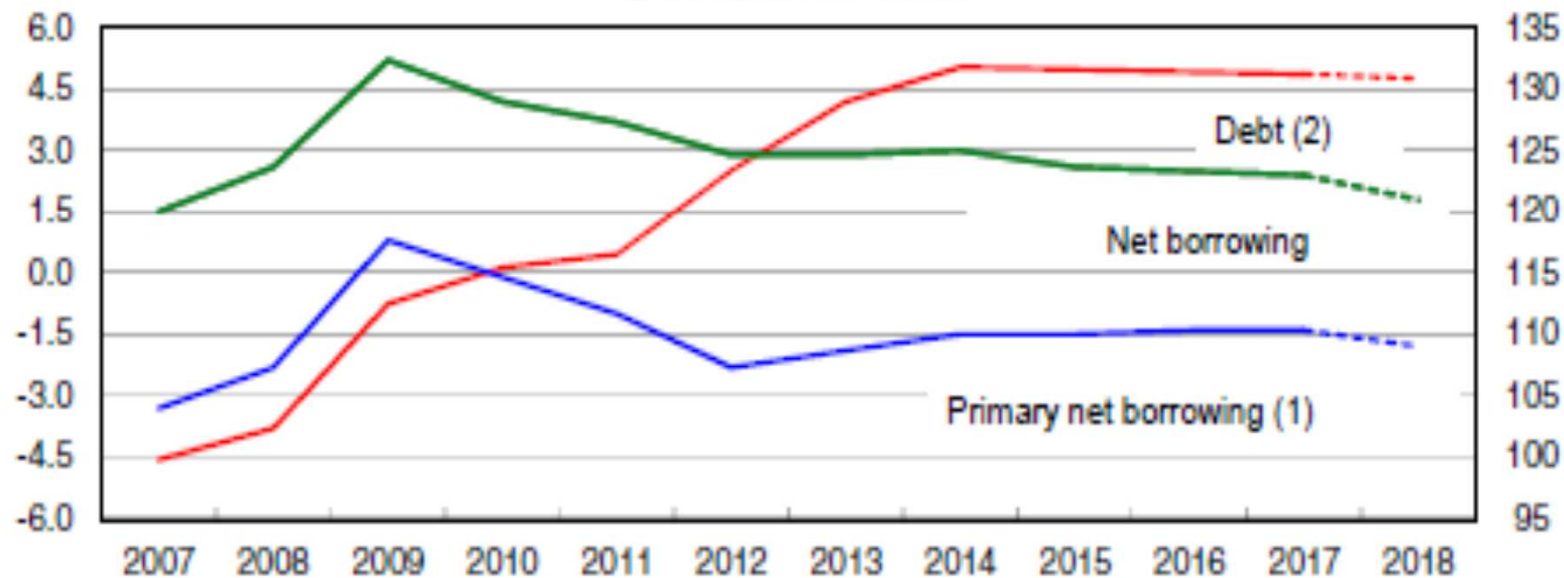
Challenges and conclusions

Political Challenges: fiscal space is limited.

A reform of the welfare system to help people in need entails redistribution of income between households, reducing some transfers to households which are not at the top of income distribution. We need to overcome the categorical approach of our Mediterranean welfare model (political costs are potentially high)

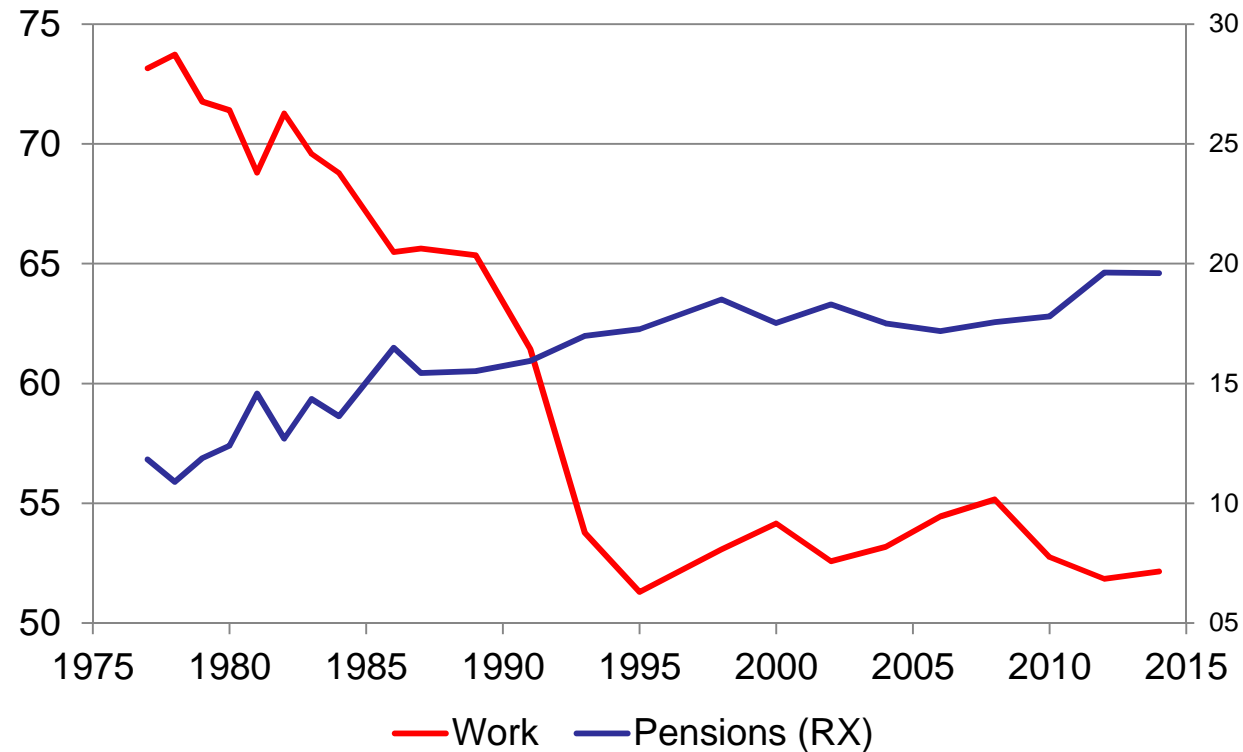
General government net borrowing, primary net borrowing and debt

(percentages of GDP)



Political challenges. Households living of pensions are a rising share of the population...

Shares of people in households with prevailing work income and share of people in households with prevailing pension income



Conclusions

Economic growth is not sufficient but it is necessary. Italy needs to increase its growth potential

- ❑ **Inequality and poverty reduction requires economic growth but also major changes in the welfare policy**

- ❑ **Some progress in the past legislation** has been made with the reform of the unemployment benefits and the introduction of the so called *Inclusion Income* (Reddito di inserimento). **But once again the reform fell short of promises.**

- ❑ **New measures have been announced by the new Government.** There are some risks related to the impact on labour market participation. Moreover the Government has announced an increase of public spending on pensions.

Thank you