GROWING INEQUALITIES AND THEIR IMPACTS IN ITALY

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Country Report for Italy

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Executive Summary

There are two main dimensions of inequality in Italy. On one side, there is *geography*. The sharp division between a more developed North and a backwards South has been a central feature of the country since the birth of the Italian national state, and is still, a central topic of Italian politics and public discussion. The weakness of the state is the second major reason to explain the relatively high level of inequality observed in contemporary Italy. On one side, the inefficiency of the state directly condemns to failure any redistributive policy aimed at effectively reducing income inequality and other kinds of inequality. On the other side, the weakness of the state indirectly increases social inequality, as it is complemented by individualistic, market-based mobilization and by the strength of particular social groups. Among the latter, the most important is surely *the family*, but also trade unions, employers’ association and the professions have played a strong role in Italian politics.

In part 1 we describe the nature of inequality and its evolution over time. Over the last decades, Italy has grown older, more educated, female labour force participation has changed, and regional disparities have not disappeared. The most significant change concerns the young generations, which are facing a fully different labour market. The so-called flexibilisation at the margin has reinforced the two-tier nature of the Italian labour market.

Consumption increased steadily in the previous decade and was partly independent of the wage dynamics but, starting from the current decade, per-capita consumption stagnated, clearly indicating that something in household behaviour had changed.

Obviously many other factors may have contributed to this outcome. One in particular may be correlated with the process of policy reform. By spreading job opportunities among a larger group of labour market participants, two-tier reforms increase earnings inequality. This does not necessarily imply that household income distribution becomes more unequal, but it is likely that increased income variability translates into a greater perception of insecurity, which induces greater savings in order to achieve consumption smoothing. Moreover, Italian families may have resisted the decline in income opportunities by decumulating assets during the previous decade, but now they may have reached the limit of desired indebtedness, and therefore may have reverted to a lower consumption pattern.

In part 2 we look at the impacts of inequality on various dimensions such as poverty, health and social cohesion. Consistently with higher income inequality, Italy is characterised by a large fraction
of materially deprived families. The geographical distribution of (income) poor families, which in the south are six time more frequent than in the north, is impressively imbalanced. In addition, declining marriage rate and increasing divorce, combined with the increased number of single-parent families and the decline in fertility, all indicate a reduced capacity for families in attenuating income volatility and deprivation risks. However, familism still emerges as one of the most recurring attitudes among Italian families, whereas the country scores low in all measures of social capital based on trusting others.

Housing is a powerful channel for inequality reproduction in Italy (almost 4/5 of the population own their home). The opaque redistributive activity played by the state makes Italians more reluctant to raise their voice in support for greater redistribution, each preferring family transfers through home ownership. This is an example of the intersection of the individualistic and family mobilization strategies typical of Italian society. But of course this kind of mobilization against social risks further reduces intergenerational mobility, especially when the latter is measured in wealth.

In part 3 we look on the impact of inequality on political and civic participation. When considering political participation, Italy ranks quite high, despite the relatively high level of income. However, the age divide seems important here, with young cohorts exhibiting disaffection to traditional political representation. Education still remains a strong determinant of turnout: thus young and uneducated citizens tend to lose political weight because of implicit withdrawal from political representation of their interests.

Participation in civic activities is strongly affected by social conditions and by cultural factors. Despite the high voting turnout, Italians’ trust in institutions remains low. The loss of confidence in the government and the disillusion with political representation may be responsible for the convergence towards the centre in the political self-assessment. This represents a vicious circle that is typically Italian and is getting more relevant in the recent decades: weak governments produce low confidence in political institutions, and this in turn reinforces the weakness of the government and of the whole political system.

Increasing disillusion also extends to the activities of the European Union. Italians appear to be less and less concerned by “high policy in delegated democracies”, while continuing to play attention to the surrounding environment, as witnessed by rising xenophobia. Even the support for redistribution from poor interviewees has declined over time, despite the increasing inequality in the aggregate. Those who would benefit more from a strong government do not believe in this possibility. Only rich families exhibit more awareness of the changed economic situation.
Some hope emerges by the observed correlation between educational attainment and civic participation: since education is expanding and educational inequality is declining, this may partially counteract any further detachment from social participation.

Finally in part 4 we describe the main policies in combating inequalities. Italy spends approximately as much as other European countries for social benefits, but the internal composition of this expenditure is biased against the young generation, similarly to the regulation of the labour market. This bias is likely to be a major source of the growing disaffection of young people towards politics. Among different kinds of expenditure, unemployment benefits and support to housing are very low, opposite to expenditure towards the elderly, through the pension system. Of course, as in the case of differential employment rates by age, some kind of income redistribution takes place inside the family, but this kind of redistribution does not decrease inequality: if it has any impact, this goes towards increasing inequality and decreasing intergenerational mobility.

On the fiscal revenue side, the tax burden is biased toward indirect taxation. This weakens the redistributive impact of taxes on income and wealth, as indirect taxation cannot be progressive, as direct taxation, but is by definition regressive: the rich pay proportionally less than the poor.

Labour market institutions should be inequality reducing, but the decline in union membership and coverage, coupled with the absence of a minimum wage scheme raises strong doubts about the effective ability to prevent further increases in earning inequality. On the contrary, the outcome of neo-corporatist bargaining (concertazione) from the early 90s, has produced a new cleavage, between younger and mature workers, that adds up to the already existing inequalities.

Finally, schooling institutions should also reduce educational inequality, and indirectly, given education and income are positively correlated, also income inequality. While we observe a reduction in inequality concerning both the distribution of schooling and that of schooling opportunities by gender and social strata, there is still much to be accomplished with respect to pre-primary schooling, secondary school stratification and lifelong learning.
Introduction

When social scientists look at the Italian society in comparative perspective, they often talk about a set of idiosyncrasies that distinguish it from other developed societies, making it a somehow deviant case. Very briefly, one could say that there are two main dimensions to this unevenness. On one side, there is geography. The sharp division between a more developed North and a backwards South has been a central feature of the country since the birth of the Italian national state, and is still, 150 years on, a central topic of Italian politics and public discussion. On the other side, there is the weakness of the state. In fact, when looking at an endless series of failed or ineffective reforms, Italian scholars often use a dichotomy between a “formal constitution”, that is the laws of the state, and “material constitution”, that is the way society actually works.

The weakness of the state is a major reason to explain the relatively high level of inequality observed in contemporary Italy. Despite its economy being normally classified among the coordinated market economies, and Italian policy makers paying regular lip service to the “European social model” of relatively low social inequality, we will show that both income inequality and the intergenerational transmission of social advantage make Italy much closer to the Anglo-Saxon economies and their relatively high levels of inequality, than to the Continental European ones. This situation is doubly related to the weakness of the state. On one side, the inefficiency of the state directly condemns to failure any redistributive policy aimed at effectively reducing income inequality and other kinds of inequality. On the other side, the weakness of the state indirectly increases social inequality, as it is complemented by individualistic, market-based mobilization and by the strength of particular social groups. Among the latter, the most important is surely the family.

Another aspect of the strength of social groups with respect to the state can be found in the role often played by interest associations in the regulation of the Italian economy: at various stages of recent Italian history, at turn both labour unions and employers’ association have vetoed reform proposals aimed at increasing equality of labour market opportunities among citizens, in order to protect their affiliates’ short-time interests. Something similar can be said concerning professional associations, lobbies promoting local interests and other kinds of economic interest groups.

In part 1 we describe the nature of inequality and its evolution over time. Over the last decades, Italy has grown older, more educated, female labour force participation has changed, and regional disparities have not disappeared. The most significant change concerns the young generations, which
are facing a fully different labour market. The so-called flexibilisation at the margin has reinforced the two-tier nature of the Italian labour market.

Consumption increased steadily in the previous decade and was partly independent of the wage dynamics (which were hardly affected by the 1993 wage freeze agreement) but, starting from the current decade, per-capita consumption stagnated, clearly indicating that something in household behaviour had changed.

Obviously many other factors may have contributed to this outcome. One in particular may be correlated with the process of policy reform. By spreading job opportunities among a larger group of labour market participants, two-tier reforms increase earnings inequality. This does not necessarily imply that household income distribution becomes more unequal, because this depends on the job opportunities distribution within families. However, it is likely that increased income variability translates into a greater perception of insecurity, which induces greater savings in order to achieve consumption smoothing. One should also consider that Italian families may have resisted the decline in income opportunities by decumulating assets during the previous decade, but now they may have reached the limit of desired indebtedness, and therefore may have reverted to a lower consumption pattern.

In part 2 we look at the impacts of inequality on various dimensions such as poverty, health and social cohesion. Consistently with higher income inequality, Italy is characterised by a large fraction of materially deprived families. But the geographical distribution of (income) poor families (which in the south are six time more frequent than in the north) gives us an impressive picture of how unequal life chances in the country are. Even if families are crucial in attenuating inequality, larger families are more exposed to poverty risk. In addition, declining marriage rate and increasing divorce, combined with the increased number of single-parent families and the decline in fertility, all indicate a reduced capacity for families in attenuating income volatility and deprivation risks. However, familism still emerges as one of the most recurring attitudes among Italian families, whereas the country scores low in all measures of social capital based on trusting others. This situation, coupled with the historical weakness of the Italian state to provide protection against risk, makes for a quite pessimistic forecast concerning the future evolution of both poverty risk and inequality therein.

Housing is a powerful channel for inequality reproduction in Italy. With almost 4/5 of the population owning their home, after having received it as gift/inheritance from the previous generation in 3 out of 5 cases, the deprived families tend to be those who cannot obtain a mortgage loan and are forced to live on (increasing) rents.
The opaque redistributive activity played by the state makes Italians more reluctant to raise their voice in support for greater redistribution, each preferring family transfers through home ownership. This is an example of the intersection of the individualistic and family mobilization strategies typical of Italian society. But of course this kind of mobilization against social risks further reduces intergenerational mobility, especially when the latter is measured in wealth.

In part 3 we look on the impact of inequality on political and civic participation. When considering political participation, Italy ranks quite high, despite the relatively high level of income. However, the age divide seems important here, with young cohort exhibiting disaffection to traditional political representation. Education still remains a strong determinant of turnout: thus young and uneducated citizens tend to lose political weight because of implicit withdrawal from political representation of their interests. This behaviour results in a low possibility on their part to exploit the possibilities of income and wealth redistribution provided by the democratic system.

Participation in civic activities is strongly affected by social conditions and by cultural factors. Despite the high voting turnout, Italians’ trust in institutions remains low. The loss of confidence in the government and the disillusion with political representation may be responsible for the convergence towards the centre in the political self-assessment. This represents a vicious circle that is typically Italian and is getting more relevant in the recent decades: weak governments produce low confidence in political institutions, and this in turn reinforces the weakness of the government and of the whole political system.

Increasing disillusion also extends to the activities of the European Union. Italians appear to be less and less concerned by “high policy in delegated democracies”, while continuing to play attention to the surrounding environment, as witnessed by rising xenophobia. Even the support for redistribution from poor interviewees has declined over time, despite the increasing inequality in the aggregate. Those who would benefit more from a strong government do not believe in this possibility. Only rich families exhibit more awareness of the changed economic situation.

Some hope emerges by the observed correlation between educational attainment and civic participation: since education is expanding and educational inequality is declining, this may partially counteract any further detachment from social participation.

Finally in part 4 we describe the main policies in combating inequalities. Italy spends approximately as much as other European countries for social benefits, but the internal composition of this expenditure is biased against the young generation, similarly to the regulation of the labour market. This bias is likely to be a major source of the growing disaffection of young people towards politics. Among different kinds of expenditure, unemployment benefits and support to housing are very low,
opposite to expenditure towards the elderly, through the pension system. Of course, as in the case of
differential employment rates by age, some kind of income redistribution takes place inside the
family, but this kind of redistribution does not decrease inequality: if it has any impact, this goes
towards increasing inequality and decreasing intergenerational mobility.

On the fiscal revenue side, the tax burden is biased toward indirect taxation. This weakens the
redistributive impact of taxes on income and wealth, as indirect taxation cannot be progressive, as
direct taxation, but is by definition regressive: the rich pay proportionally less than the poor.

Labour market institutions should be inequality reducing, but the decline in union membership and
coverage, coupled with the absence of a minimum wage scheme raises strong doubts about the
effective ability to prevent further increases in earning inequality. On the contrary, the outcome of
neo-corporatist bargaining (concertazione) from the early 90s, has produced a new cleavage,
between younger and mature workers, that adds up to the already existing inequalities.

Finally, schooling institutions should also reduce educational inequality, and indirectly, given
education and income are positively correlated, also income inequality. While we observe a
reduction in inequality concerning both the distribution of schooling and that of schooling
opportunities by gender and social strata, there is still much to be accomplished with respect to pre-
primary schooling, secondary school stratification and lifelong learning.
1. The nature of inequality and its development over time

1.1 Introduction

When social scientists look at the Italian society in comparative perspective, they often talk about a set of idiosyncracies that distinguish it from other developed societies, making it a somehow deviant case. While an earlier generation of scholars noticed the delay in modernization characterizing the country with respect to neighbours such as France or Germany, among the most recent generation, writing after the economic boom (miracolo economico) of the 50-60, when Italy entered the higher ranks of industrial countries, a frequently used keyword is “uneven modernization” (Martinelli et al. 1999). Very briefly, one could say that there are two main dimensions to this unevenness.

On one side, there is geography. The sharp division between a more developed North and a backwards South has been a central feature of the country since the birth of the Italian national state, and is still, 150 years on, a central topic of Italian politics and public discussion. A huge literature, both economic and sociological, has shown how relevant this divide appears whichever aspect of Italian society is observed, and this report will show how it is relevant also for economic and social inequality. Most of the papers quantitatively describing the economic and social features of Italy on a geographical base, looking at regions or provinces, show in fact that their distribution on the North-South divide looks much more like two different and only partially overlapping distributions than like a single one with values high in the North and low in the South (Ballarino and Schadee 2005).

In fact, we will see that many features of Italian society that make it different from Northern European countries are shared by other Southern European ones, to the point that welfare state scholars have added a fourth “Mediterranean” welfare regime to the three of the standard typology (Ferrera 1996). However, the stability over time of this divide is a unique Italian feature. A comparison with Spain can be useful: while in the latter country the regional divides have significantly reduced since the 60s, as forecasted by modernization theory, in Italy they did not change at all (Boltho 2007). A discussion of the reasons for this divide will bring us quite far away from the purposes of this report. Suffice it to say that some scholars see it as going back as far as the late Middle Age, when the country was divided between free municipalities (Comuni) in the North and the Normand feudal kingdom in the South (Putnam 1993), while some others underline the effect of the way the country was unified in the second half of the 19th century (Sabetti 1996).
On the other side, there is the weakness of the state. Already Antonio Gramsci did underline this weakness as a key point in understanding the idiosyncratic features of social conflict and political dynamics in modern Italy (see also Ginsborg 1989). In fact, when looking at an endless series of failed or ineffective reforms, Italian scholars often use a dichotomy, proposed by law scholar Costantino Mortati just after WW2, between a “formal constitution”, that is the laws of the state, and “material constitution”, that is the way society actually works. Also in this case, space does not allow us to go into a detailed historical reconstruction of the reasons for this weakness, but we have to underline that it is related to the historical fragmentation of the country and the internal geographical divides that were recalled above.

The weakness of the state is a major reason to explain the relatively high level of inequality observed in contemporary Italy. Despite its economy being normally classified among the coordinated market economies, and Italian policy makers paying regular lip service to the “European social model” of relatively low social inequality, in a few pages we will show that both income inequality and the intergenerational transmission of social advantage make Italy much closer to the Anglo-Saxon economies and their relatively high levels of inequality, than to the Continental European ones. This situation is doubly related to the weakness of the state. On one side, the inefficiency of the state directly condemns to failure any redistributive policy aimed at effectively reducing income inequality and other kinds of inequality.

On the other side, the weakness of the state indirectly increases social inequality, as it is complemented by individualistic, market-based mobilization (Pizzorno 1993) and by the strength of particular social groups. Among the latter, the most important is surely the family: the classic concept of “amoral familism”, developed by Banfield (1956) on the basis of his fieldwork in Southern Italy, is still useful to express how Italian families act for their own particular interests, without taking into account the welfare of society at large. This report will often show the family to be a strong driver of inequality in Italy, perhaps the strongest, together with the North-South divide. The relatively low level of social capital exhibited by Italian society (Eurostat 2010) is a crude but realistic measure of this situation.

Another aspect of the strength of social groups with respect to the state can be found in the role often played by interest associations in the regulation of the Italian economy: at various stages of recent Italian history, at turn both labour unions and employers’ association have vetoed reform proposals aimed at increasing equality of labour market opportunities among citizens, in order to protect their affiliates’ short-time interests. Something similar can be said concerning professional associations, lobbies promoting local interests and other kinds of economic interest groups.
With this situation in mind, we now move to a brief comparative sketch of inequality in Italy.

When compared to other OECD countries Italy appears as one of the most unequal countries in terms of income distribution (see figure 0.1). Leaving aside developing countries (like Mexico and Brazil) and free market economies (like United States), Italy contrasts United Kingdom as the most unequal economy in the OECD area. The Gini index of income inequality stand at 0.34 and rising, very similar to the UK value. This is rather striking when considering that this country is characterised by educational institutions and labour market institutions that are typical of social economies. What is even more striking is that the underlying trend is on the rise (as recently pointed out by the OECD report Divided we stay, Paris 2011).

**Figure 0.1: Inequality indices – main OECD countries**

![Gini index on income inequality](image)

<table>
<thead>
<tr>
<th>Country</th>
<th>mid 1980</th>
<th>mid 1990</th>
<th>mid 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>0.290</td>
<td>0.281</td>
<td>0.281</td>
</tr>
<tr>
<td>Germany</td>
<td>0.286</td>
<td>0.290</td>
<td>0.298</td>
</tr>
<tr>
<td>Italy</td>
<td>0.337</td>
<td>0.350</td>
<td>0.352</td>
</tr>
<tr>
<td>Spain</td>
<td>0.328</td>
<td>0.319</td>
<td>0.319</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.332</td>
<td>0.341</td>
<td>0.335</td>
</tr>
<tr>
<td>United States</td>
<td>0.365</td>
<td>0.374</td>
<td>0.381</td>
</tr>
<tr>
<td>OECD 22</td>
<td>0.295</td>
<td>0.299</td>
<td>0.300</td>
</tr>
</tbody>
</table>

Source: OECD 2008, Growing unequal, Paris

Historical reasons may partially account for this situation. Italy is a late comer in the process of capitalist development, which typically require a skill upgrade of the domestic labour force. One century ago almost 4/5 of the adult population was illiterate. More recently, despite an inflow of young cohort who attain levels of education in line with the Lisbon 2020 target (at least 85% of the population with a secondary school degree), there is still almost half of the population in working age missing this target. If we look at figure 0.2 we notice that Italy has accomplished significant steps, reducing this share by more than 10 percentage points. Clearly Europe remains a two-speeds continent, with Mediterranean countries lagging behind continental ones in terms of socio-economic development. Spain shares similar problems: late wave of schooling occurs in a country where still
the majority of the population has not completed compulsory education. This is typical of rural countries under the transition to become industrial economies. The Kuznets pattern seems to apply in the present case, where both countries would be located on the rising side of the inverted U-shaped dynamics.

**Figure 0.2: Educational attainment in the population**

![Graph showing population aged 25-64 without a secondary school degree](chart)

This is confirmed by looking at intergenerational persistence, as it emerges from the analysis of educational attainments (data on incomes are not available for the parent generation) (see figure 0.3). Once more the two Mediterranean countries exhibit high persistence in older generations, while α-converging in most recent age cohorts. Since the educational systems of the two countries underwent significant changes only in the 60’s, pushing for more education in the baby-boom generation, which in turn gave birth to the generation who is currently leaving education. It then took two generations to catch up in terms of educational attainments. Bear in mind that Italy lie many European countries is a fast-aging population with an average fertility rate of 1.2 since two decades.
The lack of a robust industrial structure, a large share of small firms and self-employment, a large share of employment in the service sector (exceeding 50%) are all underlying forces that tend to create inequality in income distribution. If we add the fact that Italy as a national state is a recent phenomenon (it has just finished to celebrate its 150 year anniversary since reunification), we understand that the country lacks of containment forces, because the ability of the public administrations in redistributing incomes and providing safety nets is limited by lower tax compliance and a huge public debt. Most Italian hope these anomalies are to be absorbed by further development in course of the next decades; but more negative prospects are equally likely, in case Italy fails to catch the train of the current recovery and continues over a declining trend.

1.2 The current situation of inequality

While perceived inequality is currently at its highest in Italy, empirical evidence is more controversial in this respect (Fondazione deBenedetti 2011). Our data shows almost no trend over the last 20 years, irrespective of including incomes from self-employment and/or imputed rents. We do this distinction because the very high rates of self-employment (25% of total employment) and house ownership (80% of house owners) are two peculiar characteristics of the Italian economy. The Italian income distribution has become fatter at both tails, but relative distances have reduced in the middle of the distribution. However the entire distribution covers significant changes within the distribution.
associated to labour market transformations. The increased flexibilisation of labour market regulations has mostly affected the young component, which remains source of additional incomes within pre-existing families. Given the substantial stability of equivalised income inequality, this indicates a reinforced role for the family as income shock absorber. This is interesting, as reforms intended to increase employment, and thus to diminish the role of the family at the advantage of that of the market in providing economic opportunities to individuals, have had exactly the opposite effect. However the data on household wealth growth and distribution indicates that households may be troubled in maintaining this role in the future, since an increasing fraction of them has begun to decumulate previous savings (as indicated by data on wealth inequality).

Data on inequality in consumption provide a complementary picture, witnessing an increased inequality over the last two decades. The two tails of the consumption opportunities are very far away one from the other: while the bottom 10% accounts for only 4% of total consumption, the top 10% commands the 22% of it. Data on educational attainment would allow for some optimism, because education is expanding and the impact of family background is reducing in more recent cohorts. However, this is a situation common to all advanced countries, and Italy is in fact among those where such reduction has been lower (Breen et al. 2010). This piece of data confirms that the effect of the current economic downturn on income and consumption inequality seem to be mild compared to the effects of the previous recession of 1992 which cause a step increase in measures of inequality (see next section). In most countries this smoothed effect has been attributed to government redistributive policies and stimulus packages. Certainly in Italy a high stock of private savings and diffused house ownership, together with extended measures of short time work which avoided mass layoffs (cassa integrazione guadagni) and the proverbial family network have played a substantial role in smoothing the impact of recession. However the prolonged duration of the downturn may start biting soon into savings and family insurance mechanisms.

As we shall see, different social groups were differently affected by the labour market reform, introducing new divides (young-old people, employed-unemployed, educated-school dropouts) besides the old ones (North-South, men-women). Increased inequality seems attributable mostly to the geographical divide, which is the only one where the between-group inequality is expanding. Another driver of this increase is self-employment, where inequality has increased much more than among dependent employment. Since groups overlap, the combination of worst outcomes lies in uneducated young women in the South, who are very likely to be unemployed. This is obviously bad news, especially when compared to other signals, for instance the improvement of educational mobility.
1.3 Income inequality

When dealing with income inequality it is important to clearly define the definition of income considered and the dataset used. Here we use the historical archive of the Bank of Italy’s survey of household income and wealth (SHIW-HA), which is a long standing survey run on a regular basis since the 1977 on a representative sample of the Italian population.

Here we focus on household income, i.e. the sum of incomes of all individuals living under the same dwelling. Among the main limitation of the SHIW-HA is that it under-represents incomes in the tails of the distributions, for different reasons. The bottom tail is under-represented because institutionalised or homeless Italian citizens are not surveyed and top tail is under-represented because high income people tend to respond less frequently to voluntary interviews. Another important limitation of this data set is that it only records after-tax (disposable) income, hence we cannot provide an analysis of inequality of household income before taxation. Notwithstanding these limitations, common to most survey data, SHIW-HA remains the most commonly used data set for income distribution analysis over time in Italy, allowing a researcher to disentangle among different source of income at the individual and household level.

Let us now define carefully the income definition used. We considered three definition of household disposable household income: (a) total disposable income, (b) total disposable income excluding imputed rents and (c) total disposable income excluding self employment income. Moreover, we also used two equivalised versions of total disposable income to consider possible economies of scales within the household, namely (d) total disposable income equivalised using the OECD equivalence scale and (e) using the square-root of family size equivalence scale. We use both scales to check the robustness of the results given the substantial differences in equivalized and non-equivalized household income introduced by the diffusion of temporary contracts in families where young temporarily-employed children often live at home (see the discussion above). Only positive household income are considered and, as inequality indices can be rather sensitive to outliers and extreme values, we censored the top tail of the income distribution to the last percentile, i.e. all incomes higher than the 99th percentile have been replaced with the 99th percentile.

In Figure 4 the graph of three inequality indices are presented, namely the Gini, the Theil and the half the squared coefficient of variations (hSCV). While the Gini and the Theil indices are sensitive to changes in the bulk of the distribution, the hSCV is more sensitive to changes in the upper part of the income distribution. Regardless of the inequality index adopted one can notice that the household income inequality pattern is rather similar. Since the end of the 1970s, inequality decreased for about twenty years, but largely increased at the beginning of the 1990s, to remain rather stable.
afterwards, at levels similar to those before the 1970s. Although the level of inequality index depends on the measure of income used, the overall trend is roughly confirmed whatever income definition is used. In particular, equivalent household income inequality is consistently lower than non-equivalised household income. This is of course not surprising as by computing equivalent incomes, we are eliminating inequality within households.

More interestingly, looking at different definition of total disposable income after all tax and benefits payments, one can notice that excluding imputed rents produces little change to inequality trends while a higher inequality level is estimated if self-employment income is excluded from the definition of income. Excluding self-employment income reduces total household income of many units and increases inequality indices. We will see in the next section that inequality within the self employed is higher – as expected- than inequality within dependent employees, however the inequality between these two groups changed substantially over time (the self-employed concentrate at the bottom of the distribution also for notorious tax evasion issues). The overall effect is of increasing inequality when excluding the self employed from computation. These trends are confirmed also using a measure of inequality often used in labour economics, namely the variance of logs (see Figure 5). Differently, the mean distance to the median shows a marked increase since the end of the 1970s, but this is not surprising as it is not scale invariant and the prices have largely increased in the 30-year period considered. No significant differences in the trend emerge when indices are constructed by age groups (20-39, 40 – 50 and 60 or more years old): inequality is highest for the oldest group and is lowest for the 40 – 50 group.
Figure 4: Evolution of the inequality indices Gini, Theil and (half) the squared coefficient of variation, different types of household incomes

Our computations on SHIW (various years)
Figure 5: Inequality measure, mean distance to the median and variance of logs, different types of household incomes.

Our computations on SHIW (various years)

In Figure 6 the plot of bottom 5% and 10% and top 90% and 95% are depicted. The main message that they deliver is that much of the dynamics going on between the 1980s and the 1990s is due to the large reduction of the share of income accruing to the bottom deciles of the income distribution while looking at top deciles, the trend is similar to what found for other inequality indices on household income. Interestingly, the trend of bottom percentiles share is much less pronounced if self-employment income is ignored. The role of self-employment income emerges also from Figure 7, where some quantile ratios are presented. In fact, while equivalent household income quantile ratios
have a very similar trend of inequality indices such as those presented in Figure 4, quantile ratios of household income excluding self-employment decreased over time. In other words, if Italian inequality remains at high levels as opposed to what is found in other European countries this is largely due to changes of self-employment income. The role of self-employment income to explain inequality trend in Italy has been already discussed by various authors. For instance, Fiorio (2011) argues that changes in self-employment income accounts for a similar proportion of changes in employment income even though the total contribution to national income of the former is about one third of the total contribution of the latter. We shall see below (figure 16) more evidence of this pattern. Fiorio’s paper also argues that changes in the distribution of work income explains most of the increasing trends in inequality, while pension incomes had mostly a disequalising effect over the period considered. Among the possible causes of household inequality trends, demographic changes (household composition) are found to be relatively unimportant, as opposed to the female labour force participation. In particular, Fiorio (2011) pointed out that the labour force participation increased largely for women of high income families while it did not change substantially for women from families at the lower deciles of the income distribution, arguing that differential change of female labour force participation was a driving force of trends in household inequality.

Fiorio, Leonardi and Scervini (2011) decomposed the inequality trends of household inequality by main geographical areas (North, Centre and South) finding that changes of inequality in Italy at the end of the 1990s can be largely accounted by changes in the distribution of household income in the South, which is the poorer area of Italy. The relevance of the geographical divide and of the family as drivers of the recent increase in income inequality in Italy confirms what was observed in the Introduction above.
Figure 6: Top and bottom share of incomes, different types of household incomes.

Our computations on SHIW (various years)
Figure 7: Quantile ratios, different types of household incomes.

Our computations on SHIW (various years)
1.4 Consumption inequality

Figure 8 presents four measures of consumption inequality. We notice a reduction of inequality in the ‘80s, an increase in the ‘90s and a stable trend thereafter. Inequality in consumption in 2005 is back to the same level of 1980. We interpolate the points because of sample variability, yet there is no clear effect of the business cycle, if anything a small increase in inequality after 1992. The evolution is similar to the one of income but with reduced volatility. All four measures including the percentile ratios share the same evolution over time: decline in the ‘80s, increase in the ‘90s and stable after. Consumption is a better indicator than current income of household living standards in the long period. In the early ‘90s inequality in income rose sharply while consumption inequality did not because consumers smoothed transitory variations in earnings with savings and new debt. This is similar to findings for the US (Blundell, Pistaferri e Preston, 2008) and UK (Blundell e Preston, 1998).

Figure 8: Measures of consumption inequality over time in Italy
Our computations on SHIW (various years)

![Graphs showing measures of consumption inequality over time in Italy](image)

Figure 9 shows the share of the bottom 5% and 10% of total consumption and the equivalent shares of the 90% and 95%. Also this picture paints a story of overall stability in consumption inequality where the very poor (bottom5%) consume only 1.5% of total consumption. These graphs are not interpolated and therefore look more volatile but the numbers show that there is very little change in the average shares of total consumption over time.
1.5 Wealth inequality

The net wealth of Italian families has significantly increased in the last decades, as shown by D’Alessio (2011). In 2009 the total wealth of families was equal to about 8.588 billion euro, roughly 6.5 times the 1965 value at 2009 prices, with an average increase of 4.7% per year. The net total wealth increased over the whole period, though faster between 1985 and 1993 and between 1996 and 2007. The wealth of families experienced also negative growth in real terms in year 1977, when it reduced by over 4 percent and between 1981 and 1985, when it reduced by about 8.3 percent, and between 1993 and 1994 when it reduced by about 5%. In 2008 the reduction of real wealth decreased by over 3.5%. Overall, D’Alessio highlights that the increasing trend of per capita net wealth slowed down, reflecting both the progressive reduction of growth rate of Italian GDP and the progressive reduction of private savings.

The value of wealth, in the short run, reflects mainly variations of prices of assets and in particular of real estate and building properties, which account for about half the total net wealth of Italian families. The value of financial wealth, and in particular of capital stocks, is much more volatile as opposed to the value of building properties. For instance, between 1989 and 1992 the wealth grows by 33 percent in real terms, driven mainly by the increase of building properties by 50% while instead the value of capital stocks decreased by roughly 30%. In the last period, between 1995 and 2009, the net wealth at constant prices grew by over 40 percent, of which 55 percent is accounted by an
increased saving by families; the rest is accounted by very volatile capital gains, which produce changes of the total value of wealth as well as important redistributive effects.

An important issue for Italy is the relationship between the wealth of families and the total public debt, which indirectly is a liability of Italian citizens. In the period considered, Italian public debt largely increased. In 1965 the total amount of the public debt corresponded to an average per capita debt of about 2,700 euro (at 2009 prices) and it is more than 10 times larger in 2009, reaching 29,500 euro. However, even subtracting the whole public debt from private net wealth does not alter significantly its rate of growth. In per capita values, net of the public debt burden net wealth increases from 19,000 to 113,600 (at 2009 prices) between 1965 and 2009, with an average increase of 4.1% as opposed to a growth of 4.4% if public debt is ignored. Hence the increase of wealth of Italian families is only marginally reduced if public debt is taken into account.

Interestingly the ratio of net wealth over GDP also presents an increasing trend, which is reasonable as GDP has also largely increased over the same period. Notwithstanding the flatter trend, the net wealth over GDP ratio is roughly doubled, showing that Italy has increased wealth more than its production. This shows the growing relevance of wealth as opposed to income, which has important implication in terms of overall inequality. Figure 11 also presents some inequality indices and quantile ratios for net wealth highlighting the fact that the distribution of wealth became increasingly unequal across the last two decades, reinforcing the trend we have observed for the case of income.

Finally to be noticed that net private debt of households has grown in most countries in the recent decades but in Italy it reached much lower levels with respect to other countries. For example in 2006 it was 68.8% of disposable income while it was at 174.9% in the UK in the same year. The per capita average value of house loans was 5,100 euro in Italy against 28,800 euros in the UK. This is due to the higher house ownership ratio in Italy and also to a less developed financial market, in any case the low level of private debt helped making the impact of the recession less serious.
Figure 10: Trend of wealth in Italy, 1965-2009 (constant prices, with base year 1965).

![Graph showing trend of wealth in Italy, 1965-2009.](image)


Table 1: Family wealth in Italy 1965-2009 (2009 prices)

<table>
<thead>
<tr>
<th>Years</th>
<th>Net wealth (billions of euro) (*)</th>
<th>Per capita wealth (euro)</th>
<th>Per capita wealth, net of the public debt (euro)</th>
<th>Net wealth/GDP</th>
<th>Net wealth, net of public debt/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>1,129</td>
<td>21,713</td>
<td>19,022</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>1970</td>
<td>1,607</td>
<td>29,953</td>
<td>25,606</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>1975</td>
<td>2,443</td>
<td>43,970</td>
<td>36,653</td>
<td>3.5</td>
<td>2.9</td>
</tr>
<tr>
<td>1980</td>
<td>3,299</td>
<td>58,439</td>
<td>49,359</td>
<td>3.7</td>
<td>3.1</td>
</tr>
<tr>
<td>1985</td>
<td>3,251</td>
<td>57,309</td>
<td>43,325</td>
<td>3.3</td>
<td>2.5</td>
</tr>
<tr>
<td>1990</td>
<td>5,105</td>
<td>89,974</td>
<td>69,639</td>
<td>4.2</td>
<td>3.2</td>
</tr>
<tr>
<td>1995</td>
<td>5,963</td>
<td>104,113</td>
<td>77,035</td>
<td>4.4</td>
<td>3.2</td>
</tr>
<tr>
<td>1996</td>
<td>6,116</td>
<td>106,612</td>
<td>79,144</td>
<td>4.4</td>
<td>3.3</td>
</tr>
<tr>
<td>1997</td>
<td>6,539</td>
<td>113,762</td>
<td>86,140</td>
<td>4.6</td>
<td>3.5</td>
</tr>
<tr>
<td>1998</td>
<td>6,831</td>
<td>118,696</td>
<td>91,214</td>
<td>4.7</td>
<td>3.6</td>
</tr>
<tr>
<td>1999</td>
<td>7,035</td>
<td>122,128</td>
<td>94,398</td>
<td>4.9</td>
<td>3.7</td>
</tr>
<tr>
<td>2000</td>
<td>7,184</td>
<td>124,464</td>
<td>97,078</td>
<td>4.9</td>
<td>3.8</td>
</tr>
<tr>
<td>2001</td>
<td>7,227</td>
<td>124,937</td>
<td>97,450</td>
<td>4.8</td>
<td>3.7</td>
</tr>
<tr>
<td>2002</td>
<td>7,399</td>
<td>127,730</td>
<td>100,472</td>
<td>4.9</td>
<td>3.8</td>
</tr>
<tr>
<td>2003</td>
<td>7,618</td>
<td>131,349</td>
<td>104,355</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>2004</td>
<td>7,910</td>
<td>136,244</td>
<td>108,783</td>
<td>5.1</td>
<td>4.1</td>
</tr>
<tr>
<td>2005</td>
<td>8,269</td>
<td>141,441</td>
<td>113,365</td>
<td>5.3</td>
<td>4.3</td>
</tr>
<tr>
<td>2006</td>
<td>8,540</td>
<td>145,357</td>
<td>116,645</td>
<td>5.4</td>
<td>4.4</td>
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<td>2007</td>
<td>8,719</td>
<td>147,452</td>
<td>119,162</td>
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<td>4.4</td>
</tr>
<tr>
<td>2008</td>
<td>8,481</td>
<td>142,253</td>
<td>113,854</td>
<td>5.3</td>
<td>4.2</td>
</tr>
<tr>
<td>2009</td>
<td>8,588</td>
<td>143,026</td>
<td>113,648</td>
<td>5.7</td>
<td>4.5</td>
</tr>
</tbody>
</table>


Figure 11: Some measure of inequality and quantile ratios for net wealth.
1.6 Labour market inequality

Figure 12 shows the development of employment and activity rates for males and females. The employment and participation rates for men are stable around the 70% and 75% points respectively. These figures for men are in line with most European countries. Labour market participation and employment are particularly weak for women in Italy as the data show the participation and employment rate are respectively a little above and a little below 50%. The mean hides regional differences: while women in the North of Italy have an employment rate around 56%, in the South it is around 30%. This implies that a large portion of females does not participate in the labour market, mainly in the Southern regions. A possible explanation concerns the presence of the “discouraged workers”. Indeed, given the low possibility to access to the primary labour market, the weak categories such as women, younger and low-educated people may decide not to search actively for a job and, in this sense, are not included in the standard labour classification provided by ILO (Brandolini et al., 2004). There are also major differences between women with and without children, whose employment rates are respectively 60% (between 20 and 49 years of age) and 64%. Approximately 15% of employed women quit their jobs after giving birth and do not come back. The two greatest factors of employment inequality in Italy are the gender and the regional dimension. Employment rates are different also by education and age, higher educated work more than lower educated (Figure 13, even if three years after graduation the employment rates of graduates are similar to those with high school degree only) and prime aged individuals participate more than the young and the elderly (Figure 14). Employment rates for the young and the elderly are low compared to many other countries.

Another important factor of inequality in the labour market in Italy is the diffusion of temporary contracts since the Treu Law of 1997 and later the Biagi Law of 2003 (see for a description of the
reform Cappellari, Dell’Aringa and Leonardi, 2010). The stock of temporary contracts of various types reached 13% of total employment after 2005, temporary workers, mainly young and females have lower wages on average and a volatile employment attachment. Figure 16 and 17 show that among females aged 15 to 24, the rate of temporary contracts has reached 50% of employment in 2010 (only slightly less for males). The figure also shows that temporary employment has a clear generational gradient and the percentage of temporary contracts decreases rapidly to 10% of total employment among workers aged 16 to 65.

**Figure 12: The activity and employment rate over time in Italy**

![Activity and employment rate over time](image)

Source: Eurostat, LFS
Figure 13: Employment rate over time in Italy by educational level

Source: Eurostat, LFS

Figure 14: Employment rate over time in Italy by age groups

Source: OECD, Employment Outlook
Figure 15: The evolution in the share of temporary employment over the total employment

Source: Eurostat, LFS.

Figure 16: The distribution of temporary employment over time by age groups for males

Source: Eurostat, LFS
**Figure 17:** The distribution of temporary employment over time by age groups for females

![Share of temporary jobs in Italy for females: by age groups](image)

Source: Eurostat, LFS

**Figure 18:** Jobless households and the share of persons who are living in households where no-one work over time in Italy

![Jobless households](image)

Source: Eurostat, LFS

The data on the share of individuals living in jobless households where no-one is in work (Figure 18) indicates that household joblessness in Italy has decreased since 1997, but is currently on the rise.
Finally another measure of employment inequality is the percentage of households in low pay. Focusing on low pay, a widely used earnings threshold is two-thirds of median earnings. Indeed low-paid workers face a higher risk of working poverty, although the individual dynamics into and out of low-paid jobs does complicate the picture at a large extent, and the policy implications of this phenomenon, one of the key element of Lisbon Strategy of the European Union, are not straightforward. Available data suggest that Italy has consistently had a relatively lower level of low paid compared with many other EU-15 countries, though similar to the Denmark (see for example Maitre, Nolan and Whelan (2010) for a discussion on this topic). The IT-SILC sample for the mid-2000s shows about 11-13% of current full-time employees with hourly earnings below that threshold.

The extent of low pay in terms of hourly earnings was substantially stable during the mid-1990s around 10% and fell marginally during the years of the economic boom at the beginning of this decade. Then, as possible consequence of the large diffusion of flexible contracts in recent years and the consequent lower wages for those employed with these contractual forms (Picchio, 2006), the incidence of low-pay jobs has grown until to 13% in the mid-2000s. Subsequently, it reduced again after the 2005, below the average incidence for the EU-15.

Obviously, the relevant point is the persistence in the low-pay condition (Cappellari, 2007). Indeed, if low paid jobs reflect a transitory experience of workers careers, then inequality should concern all individuals over the life-cycles, reducing emphasis on initial experiences. As a consequence policy measures such as the introduction of a minimum wages might reinforce rigidity at the bottom of the wages distribution without any real impact on poverty reduction. Conversely, if the persistence in low-pay employment is high, then a relevant share of workers remains excluded from the gain of productivity growth in the long period, thus claiming for adequate policy interventions.

Unfortunately, the available evidence shows that workers’ career mobility in Italy is quite low, and has been decreasing during the recent cohorts (Ballarino and Barbieri 2012).

Table 2: The incidence of low-pay employment in Italy in the mid-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low pay incidence</td>
<td>12.98</td>
<td>13.34</td>
<td>11.62</td>
<td>11.95</td>
<td>11.35</td>
</tr>
</tbody>
</table>

Source: EU-SILC data. The low pay incidence is calculated using gross hourly earnings of full-time employees

Rather than part time employment which stands only at 7% of the employed population in Italy, another possible cause of higher inequality in Italy is, as we have already seen above, the large fraction of self-employed (nearly 25% of the employed population). Inequality is very high within the group of self-employed, even if their number is not growing over time (stable at around 25%), and
figure 19 shows that the Gini indexes of self-employed and employees have moved in parallel when they decreased, from the 1970s to the 1990s, but since then the index for the self-employed shows a much steeper increase than the one of the employees. It is likely that self-employment per se is a serious contributor to increasing inequality: this may depend on regulations concerning self-employment, which are much weaker, especially on fiscal matters, than those concerning dependent employment.

The fact that between group inequality is high (the self-employed are concentrate din the lower part of the income distribution) reconciles this figure with figure 6-7.

Figure 19: Gini index for dependent and self-employed incomes over time in Italy

Educational attainment in Italy increased substantially over the last century, as it did everywhere in Europe and outside our continent. The average years of education almost doubled in about fifty years, increasing from around 7 for the cohort born in the first half of the Twenties to around 13 for the 1975-79 cohorts. These data are shown in figure 20 that reports the evolution of average years of schooling over birth cohorts using different micro-data sources as collected and described in Meschi and Scervini (2010). Educational attainment can also be measured looking at completion rates of different school cycles. Figure 21 shows the percentage of people that have completed at least lower secondary (dark grey bar), upper secondary (light grey bar) and tertiary education (white bar) in
different cohorts\textsuperscript{1}. We can notice that while in the oldest cohorts only 30 percent of people completed lower secondary education, this percentage is close to 100% in the younger cohorts. Similarly, the percentage completing upper secondary education grew from around 16% to 65%. Completion of tertiary education has also grown but it is still quite low compared to other OECD countries.

Such a rapid expansion of schooling started after the Second World War, when Italy – as many other European countries - experienced unprecedented growth rates and the new economic and socio-political conditions created the pressure for governments to modernize the education system. During the Sixties, several reforms aimed at creating a more democratic school system were implemented. A reform in 1962 created a unique and comprehensive lower secondary school, and provided the means to actually increase compulsory education from 5 to 8 years, as stated by a previous law from the 20s that, however, did not provide schools with the means needed to enlarge participation. A second reform in 1969 reform eliminated restrictions to access to university and allowed graduates of vocational secondary schools to enrol to all university faculties.

Figure 20: Average years of education over birth cohorts

Our computations on Meschi and Scervini (2010)

\textsuperscript{1} Data on the highest level of education attained are missing for most countries in the first two cohorts (1920-24 and 1925-29) and for the last one (1980-84) and therefore figure 18 is based on a shorter time span compared to figure 17.
These policies not only resulted in the expansion of schooling but also in a substantial decrease in educational inequality. Using microdata from the European Social Survey (ESS) we computed various measures of inequality, capturing the dispersion in the years of schooling attained by each cohort. Figure 22 reports the evolution of these indices (namely Gini, Atkinson and Theil index) across cohorts and clearly shows that inequality steadily decreased independent from the particular index employed to compute it.

These indices capture the dispersion of the distribution of the years of education, but do not directly help understanding how education is distributed across social groups. An alternative way to define educational inequality regards the extent to which educational attainment depends on family background. Education has long been seen as having the potential to increase opportunity and promote social mobility. In fact, an important dimension of educational equality— as defined by OECD (2007) is fairness, which implies ensuring that personal and social circumstances—for example gender, socio-economic status or ethnic origin—should not be an obstacle to achieving. Therefore we also computed a measure showing the dependence of individual school attainment on fathers’ education. In particular, we calculated the impact of having a father with a college degree on the probability of graduating in tertiary education, by estimating a probit model for each cohort. Figure 23 reports the estimated coefficients of the father’s education dummy and the confidence intervals from the probit model. Again, it seems that educational inequality declined, as the importance of father’s degree decreased over time. However, it is worth noting that socio-economic conditions (here proxied by fathers education) are still relevant to predict educational achievements, as we can...
see looking at the coefficients for the younger cohorts that are still well above zero (see also Ballarino et al. 2009).

**Figure 22: Inequality indices: Years of education - ESS**

Our computations on Meschi and Scervini (2010)

**Figure 23: Impact of father’s education**

Our computations on Meschi and Scervini (2010)

### 1.8 Whom has it affected?

Over the last decades, Italy has grown older, more educated, female labour force participation has changed, and regional disparities have not disappeared. It is instructive to analyse whether income inequality was equally distributed across all demographic groups or whether some groups had trends substantially different from others. In particular the population is here divided in five main groups:

1. Employed versus not employed;
2. Low educated versus high educated, where the former are adults who attained a lower secondary degree as opposed to the latter who attained a higher secondary degree or higher.

3. Young versus elderly workers, where the former are individuals in their thirties and the latter individuals between 55 and 65.

4. Men versus women

5. South residents versus North or Centre residents, the former being the less developed area of the country.

Given the important migration flows of recent decades, it would also have been interesting to analyse the trend of inequality within this group but unfortunately, at present, no data is available for a longitudinal analysis.²

We use here standard decomposition by subgroups methods, which can shed light on both the structure and dynamics of inequality. Inequality decomposition is a standard technique for examining the contribution to inequality of particular characteristics. This field was pioneered by Bourguignon (1979), Cowell (1980), and Shorrocks (1984). The decomposition of inequality by subgroups allows one to write total inequality as the sum of inequality within each group and between groups, when all units belonging to the same groups are given the same subgroup average income. Here we focus on individual total income, expressed as the sum of work (employment and self-employment) income and other transfers, including pensions.

Figure 24 presents the trends of between and within inequality for the five groups mentioned above. The right panel shows that within inequality trend are similar to what already described in Section A1 of this report: similarly to total inequality, within inequality for all the five groups considered decreased up to early 1990 then it increased and remained at relatively stable since the early 1990s. Substantial differences can instead be noticed looking at between-inequality. In particular, inequality between the South and the rest of the country largely increased since the early 1990s. While no major difference is found between prime age and old workers’ average incomes, the solid line in the panel shows that the difference between employed and not employed income earners has substantially decreased from 0.06 to about 0.01, which even if analysed as share of total inequality, is a relevant drop. Most likely this is due to the increased coverage of the welfare system since the early 1980s, the larger share of pensioners among Italians and the fact that pension income has an equalising effect on overall distribution (see again Sec. A1 of this report).

² We are using here data from the Historic Archive of the Survey of Household Income and Wealth, covering the period 1977-2008.
Our computations on SHIW (various years)

In Figure 25 the subgroup decomposition for each subgroup is presented and smoothed lines are presented to for ease of read. As between inequality in these groups accounts for a much smaller share of total inequality as opposed to within inequality, we also plotted the trends using the left scale for the between and the right scale for the within component. It clearly emerges that while within inequality (dotted lines in all five panels of Figure 25) shows a decreasing trend with some sign of increase since the early 2000s, inequality between employed and not employed people and between males and females has constantly decreased over the whole period. For the highly educated vis-à-vis the low educated at first it decreased, then remained stable during the nineties and finally decreased again. In the case of elderly versus younger workers and residents in the South versus residents in the rest of the country, within inequality has shown a clear U-shape behaviour. In other words, the difference between the average income of young and old workers have increased, most likely because of the increased instability of incomes for young workers due to the recent changes in labour protection legislation, which – on average - affected elderly and young workers differently.

The increasing economic differential also in terms of economic activity and infrastructure availability is a key reason for the increasing divergence between the South and the rest of the country (and also the much lower internal migration since the 1990s).
Figure 25: Trends of within vs. between inequalities, by subgroups

![Graphs showing trends of within vs. between inequalities, by subgroups](image)

Our computations on SHIW (various years)

Figure 26 plots the trends of the Theil index for subgroups. While for some groups, namely male vs. female, the inequality trend is very similar, for others, namely old and young workers the trend is the opposite, among young workers inequality has decreased across time and among older workers more inequality has emerged. The increase in education achievement of women induced a higher female labor force participation and lowered the wage differential (between group wage inequality), however the differences in participation between men and women remain very high and a selection
mechanism of the most talented women in the labor market reduces the wage differential with respect to many other countries where women participation rate is much higher (Olivetti and Petrongolo).

Figure 26: Trends of Theil inequality indices by subgroups

Our computations on SHIW (various years)
1.9 Interdependence between various inequalities

The apparent stability of income inequality in Italy emerges as the combined effect of different mechanisms. The push toward schooling, started after the World War II, has now attained levels of education which are comparable to other European countries. However, it has not been capable to significantly reduce the impact of family origins, which manifests both in the educational attainment and, especially, in the achieved occupational status.

The labour market has been submitted to a wave of reforms, which had contrasting impacts on inequality. On one side they increased the employment rate in the population, still preserving the gender and the geographical differentials. On the other, the reduction in employment protection has produced increased variability in both contract durations (hours, weeks or months) and in hourly wages. This increased variability seems absorbed by Italian families, which work as shock absorber in the absence of a well-developed welfare system (Ichino and Bentolilla 2007). This situation is typical of all Mediterranean countries, whose welfare regime is typically classified as “familistic”, as the family has a much stronger role in reducing risks than in other developed countries (Esping-Andersen 1999), but, as it was noted in the Introduction above, is particularly strong in Italy. Of course, when families act as insurers against social risk, this insurance tends to reinforce social inequality, differently from the case when the state provides protection.

In fact, the main resource that families use to absorb external shocks (unemployment risk, disability and/or early retirement) is savings, which in their turn are unequally distributed. Thus families have different abilities to cope with unforeseen events. In addition, since most of household wealth is invested in house property, which is particularly illiquid in Italy because of low geographical mobility, the ability of providing insurance coverage by Italian families is declining. Moreover, as it will be shown in detail below (section 2, point E), the average size of the households has strongly declined, decreasing their redistributive capabilities.

This puts additional stress on the social fabric, since the public assistance is withdrawing because of budget reasons. We perceive the current situation as rather unstable, with possibilities of vicious cycles similar to what has happened in US housing market (family unable to afford their indebtedness sold their properties in a massive way, followed by price drop, capital losses and further weakening of their situation). We expect the ability of Italian families to endogenously absorb adverse shocks to be strongly challenged by the current economic crisis.
1.10 Why has inequality grown?

The overall consensus is that inequality has been stable over time in Italy since 1992. In 1992 in connection with a strong recession and the abandonment of the wage indexation mechanism (Scala Mobile), inequality jumped upwards and remained there since then. There is an increase at the very top of the distribution (top 1%) similarly to many other countries. If inequality is measured including the top 1% of the distribution is shows some increasing trend in 2004. There is, however, movement within the distribution with an overall effect of stability. Self-employed and managers have done better relative to blue and white collar workers (Boeri and Brandolini, 2004).

A powerful force pushing towards more inequality in the labour market (and wages and pensions in the future) have been the labour market reforms (Treu Law, 1997 and the much less effective Biagi Law, 2003). While increasing employment and slightly decreasing informal, “black” work (still relevant in the South, especially for females), the reforms have incentivated the diffusion of temporary contracts, which in 2010 affect 50% of young females and 40% of young men (age 15-24). The effects on inequality are not yet clear, because the phenomenon is relatively recent in these quantities. Explicitly, relaxing the rigid EPL for temporary employment without changing legislation for permanent workers could exacerbate the within wage inequality (more than between inequality), crowding young workers entering in the labour market for the first time into the low-paid temporary contracts and increasing earnings instability among the younger cohorts (Cappellari and Leonardi, 2006; Comi and Grasseni, 2009; Ballarino and Barbieri, 2012).

Two other powerful dimensions of inequality that we have seen above are gender and the geographical divide. The first is slowly getting better over time, as more women participate in the labour force (although still at very low levels compared to other countries, especially in Northern Europe). However, we are in presence of a global trend and we do not expect it to be significantly different in Italy with respect to the countries that preceded Italy in the process of equalization of labour market opportunities between genders. Something different can be said concerning the geographical cleavage, who has not changed over time, as GDP per-capita in the Southern region is stable at 65% of the North.

How institutions such as unions and collective wage bargaining affected inequality is not clear. Institutions usually have an effect at the bottom of the distribution but inequality has been stable at the bottom and it has increased at the very top. Given that inequality in Italy has been stable since 1992 (the year of the recession but also of the revision of wage indexation rules), it looks like those institutions have had a minor effect on the trend in inequality but may have had an important effect...
in the discontinuity in 1992. After that date inequality went back to the levels observed before the 1970s.

A further dimension of inequality is related to standard distinction between employees and self-employed workers, who are widely diffused in Italy and have much higher within group inequality. While they did not increase in numbers over the years, we have seen that the Gini inequality index for employees and self-employed showed a similar evolution over time for the two groups in the 1970s and in the 1980s, but also that in the 1990s inequality increasing for the self-employed workers, while being stable for the dependent employees. This makes self-employment a part of the explanation of growing inequalities. More exactly, the different effectiveness of fiscal policies for the two groups can be a part of such an explanation.

The fact that inequality per se did not increase in Italy may also have to do with the distribution of net wealth. Italy has a very high saving rate which has buffered transitory volatility of income and guaranteed stable consumption. The distribution of wealth is very unequal but it is characterized by the large diffusion of own house property (80% of households: we will come back later and with more detail on this topic), this has also guaranteed stable consumption. High savings and house property are typical of households in their adult life, things may change radically for new generations on temporary contracts which do not save and cannot buy houses (but only inherit them, thus perpetuating inequality).

1.11 Conclusions: The ‘national story’ of evolving inequality drivers

Over the last decades, Italy has grown older, more educated, female labour force participation has changed, and regional disparities have not disappeared. The most significant change concerns the young generations, which are facing a fully different labour market. The so-called flexibilisation at the margin has reinforced the two-tier nature of the Italian labour market. The effect of labour market reforms (mainly in 1997 - legge Treu - and 2003 – legge Biagi) has been the increase in the elasticity of the (aggregate) labour supply, because households (mostly in their female and youth component) became able to take advantage of interstitial job opportunities. If we combine this with the increased immigration from Eastern Europe and North African countries (estimated to have reached three million people in 2008), we could frame these events as a supply side shock (OECD 2009). The increase in the supply elasticity met the labour demand in an already elastic portion, thus producing an increase in employment without a decline in the real wage.
However the ‘honeymoon effect’ of employment growth starts to show its limits (Boeri and Garibaldi 2007). The overall perception of families has been of increasing insecurity in the absence of a universal welfare safety net. Flexibilisation at the margin (the costs of which are mostly paid by young generations – think of entry wage combined with pension reforms based on capitalisation) has blocked the transfer of increased income into increased consumption. The transition from jobless growth in the early 90s to what has been termed ‘growthless job creation’ (Boeri and Garibaldi 2007) is apparent in the dynamics of consumption (see figure 27). Consumption increased steadily in the previous decade and was partly independent of the wage dynamics (which were hardly affected by the 1993 wage freeze agreement) but, starting from the current decade per-capita consumption stagnated, clearly indicating that something in household behaviour had changed.

**Figure 27 – Real wages and consumption per capita**

![Graph showing real wages and consumption per capita](image)

Source: data from the Appendix to the Relazione del Governatore della Banca d’Italia (various issues).

Obviously many other factors may have contributed to this outcome. One in particular may be correlated with the process of policy reform. By spreading job opportunities among a larger group of labour market participants, two-tier reforms increase earnings inequality. This does not necessarily imply that household income distribution becomes more unequal, because this depends on the job opportunities distribution within families. However, it is likely that increased income variability
GINI Country Report *Italy*

translates into a greater perception of insecurity, which induces greater savings in order to achieve consumption smoothing. One should also consider that Italian families may have resisted the decline in income opportunities by decumulating assets during the previous decade, but now they may have reached the limit of desired indebtedness, and therefore may have reverted to a lower consumption pattern.

No clear role seem to have played structural shifts to services (Italy still has a higher share of manufacturing employment and a -3% points difference in service employment wrt. the US and UK) nor changes in the workforce composition: Italy is a country with still a majority of one-earner families and a slow growth of female labor force participation (see annex 2, referee comments).

Labour market reforms have also impacted on union ability to recruit members and to exert wage pressure. While the bulk of union members are likely to be unaffected by these reforms (since most of them are under permanent contracts), the reform affects prospective members, who are likely to develop a perception of being treated unfairly and of being exposed to more frequent spells of unemployment. Disaffection from the unions’ values of egalitarianism and solidarity combine with increased wage inequality, which in turn contributes to reduced willingness to join unions. The decline in union power may account for the faint wage push observed in recent years, despite the decline in unemployment. Union density declined form the height of 50% of employees in the 70s to the current 30%, however the decline has been less serious in the public sector and overall less serious than in many other countries.

The final question has to do with how long this situation may last. Dissatisfaction with the two-tier reforms, initially applied to pensions and then to labour markets, may produce a policy reversal, as has already occurred in Spain. However, the policy change may also move in the direction of reducing employment protection to permanent contracts only. In such a case, we do not expect a revival of growth, because the presumably increased volatility would compress internal consumption and production even more. The evidence we have collected suggest that the debate over flexibility cannot be assessed by just looking at the employment dynamics. Almost half of the jobs created during the “miracle” vanished after the crisis, but the inequality created by the variety of contracts and the intermittence of employment participation has long-lasting consequences. Unless the current welfare state strengthens the protection offered by unemployment insurance, public pension and other forms of social protection (and there are no sign of it), or the social fabric of the Italian civil society comes out worn down by the last decade of labour market reforms.
2. The Impacts of Inequality

2.1 Introduction - Social impacts

In general, material deprivation is the consequence of persistent income poverty. Poverty is multidimensional and complex phenomenon that requires a variety of approaches for its measurement and analysis. The simplest classification distinguishes between monetary measures and non-monetary measures of income poverty. While the first refer to objective and quantifiable indicators, the second are based on either the respondent’s self-assessment of their own conditions or on measures of ownership of consumer goods and living standards. Measures of material deprivation are used together with traditional income measures to characterize poverty and it is therefore crucial in any analysis of inequality to jointly consider measures of material deprivation and conventional income measures for identifying the causal (if any) mechanisms at work.

Consistently with higher income inequality, Italy is characterised by a large fraction of materially deprived families. But the geographical distribution of (income) poor families (which in the south are six time more frequent than in the north) gives us an impressive picture of how unequal are life chances in the country. We have seen in the previous part of the report that families are crucial in attenuating inequality. However larger families are more exposed to poverty risk. In addition, declining marriage rate and increasing divorce, combined with the increased number of single-parent families and the decline in fertility, all indicate a reduced capacity for families in attenuating income volatility and deprivation risks. However, familism still emerges as one of the most recurring attitudes among Italian families, whereas the country scores low in all measures of social capital based on trusting others. This situation, coupled with the historical weakness of the Italian state to provide protection against risk, makes for a quite pessimistic forecast concerning the future evolution of both poverty risk and inequality therein.

Except gender, available data on health do not provide sufficient disaggregation to explore the correlation between deprivation/poverty and health risk. Men continue facing lower life expectancy, possibly related to unhealthy habits in eating, drinking and smoking.

Housing is a powerful channel for inequality reproduction in Italy. With almost 4/5 of the population owning their home, after having received it as gift/inheritance from the previous generation in 3 out of 5 cases, the deprived families tend to be those who cannot obtain a mortgage loan and are forced to live on (increasing) rents. The cumulative structure of inequality is quite clear in this case, as well
as the low capacity of the state to provide help to the social groups more in need. Social housing has in fact disappeared since a couple of decades.

Life satisfaction is declining, after a long rising trend. Its pattern over time is not really different from that of the GDP (and, one could add, of income inequality). However, there is something puzzling in the interaction between dimensions of life satisfaction and the geographical cleavage: in fact, while economic satisfaction is higher in the richer part of the country (the North), social satisfaction is higher in the poorer and more unequal regions of the country. A further puzzle is observed when one takes into account data on crime rates: while the latter have been declining lately, while life satisfaction was also declining, they are typically higher in the Southern regions, where life satisfaction (at least from a social point of view) is higher.

2.2 Material deprivation

According to international standards material deprivation refers to the inability for individuals or households to afford those consumption goods and activities that are typical in a society at a given point in time. This definition does not take into account people’s preferences with respect to these items, but it considers only financial affordability. The focus of material deprivation indicators is material living conditions and the enforced lack of some standards because of financial pressures. The official indicator for material deprivation used by Eurostat considers the share of the population who are unable to afford at least three out of the following nine items:

1. to face unexpected expenses;
2. one week annual holiday away from home;
3. to pay for arrears (mortgage or rent, utility bills or hire purchase instalments);
4. a meal with meat, chicken or fish every second day;
5. to keep home adequately warm;
6. to have a washing machine;
7. to have a colour TV;
8. to have a telephone;
9. to have a personal car.

Figure 28 presents this figure for Italy compared with the EU average. In the years 2004-2009 the indicator is systematically higher for Italy than for the rest of the European Union. In the considered period, the dynamic of the material deprivation rate is non-monotonic but it is similar to the EU one. After a slightly decrease in 2005, we observe an increase until 2008 and a decrease in 2009.
When considering individual occupation status, it emerges a significant variation in the rate of material deprivation within the country. As expected, the incidence is lower among employed and retired people, while it is higher among out of the labour force people and it reaches the maximum for unemployed people. For all the years, the share of material deprived unemployed people is more than double the national average, while the share of material deprived employed or retired people is almost two third of the national average.

Figure 28 Rate of material deprivation

Table 3 Material deprivation by occupation status

<table>
<thead>
<tr>
<th></th>
<th>Employed</th>
<th>Not employed</th>
<th>Unemployed</th>
<th>Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>4,2</td>
<td>8,4</td>
<td>4,2</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>4,0</td>
<td>7,9</td>
<td>17,2</td>
<td>3,6</td>
</tr>
<tr>
<td>2006</td>
<td>3,9</td>
<td>8,1</td>
<td>17,3</td>
<td>3,7</td>
</tr>
<tr>
<td>2007</td>
<td>4,3</td>
<td>8,5</td>
<td>18,7</td>
<td>4,1</td>
</tr>
<tr>
<td>2008</td>
<td>4,9</td>
<td>9,0</td>
<td>19,7</td>
<td>4,3</td>
</tr>
<tr>
<td>2009</td>
<td>4,8</td>
<td>8,4</td>
<td>19,5</td>
<td>3,9</td>
</tr>
</tbody>
</table>

As recently shown in the literature (D’Ambrosio et al 2009), there is also a significant geographical variation within the country. In particular, individuals’ well-being is consistently lower in the South of Italy and in all regions there is an almost perfect correspondence between income poverty and material deprivation.
2.3 Poverty risk

Traditional measures of income poverty within the EU are based on relative income poverty lines. In order to construct these indicators it is necessary to identify the average or median equivalised household income in the country and then it is possible to set a poverty line as a percentage of that average income. In general, poverty lines range between 40 and 70% of reference household income. By construction, a poverty line is country specific since in each country the income threshold depends on the income distribution of the considered country\(^3\).

Italy is one among the EU countries showing the highest incidence of income poverty rates, as shown in several reports\(^4\). In addition, income poverty rates are significantly higher in the South than in the North of Italy and this polarization have increased during the last years. According to the Bank of Italy, in the period from 2000 to 2006 the income poverty rate for Italy is almost stable at around 13%. Depending on the year, in the North the poverty incidence ranges from 3.6% to 4.8%, in the Centre from 4.7% to 7%, while in the South the values are stable at about 28-29%.

Figure 29 presents the dynamic of the risk of poverty rate using as a cut–off point the 60% of the median equivalised income after social transfers for the period 1998 – 2001 and 2006 – 2009. Although the two series are not perfectly comparable since for the first period the poverty rate is anchored at 1998 while for the second period it is anchored at 2006, data confirm a higher incidence of poverty in Italy compared to the rest of the EU, and a downward trend over time.

Figure 29: Risk of poverty rate

![Figure 29: Risk of poverty rate](image)

Source: EUROSTAT

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\(^3\) Note that relative income poverty line has some obvious limitation. First, the choice of a cut-off point is rather arbitrary. Second, it does not considers important elements for characterizing poverty such as how far below the poverty threshold individuals are or the length of time they have been poor.

Using data from the national institute of statistics (ISTAT)⁵, we can study the evolution of income poverty within the country over a longer time span. Figure 30 plots three alternative poverty lines for a two member household. The standard poverty line⁶ identifies the percentage of households having a consumption equal or inferior to the monthly per capita mean consumption, the second one identifies those individuals whose consumption is 80% or less than the mean, the last one identifies those individuals whose consumption is 120% or less than the mean. Independently from the threshold, all indicators increase rapidly until the late 80s, decrease during the 90s and remain fairly stable in the last decade.

These figures give a broad picture of the risk of poverty rate in the whole country but we can try to identify some groups that are more vulnerable. In Figure 31 we disaggregate income poverty by household sizes. It does not emerge a clear pattern except for the largest household (4 and 5 or more members) whose risk of poverty has increased significantly from 1990. On average, only three person households have the lowest incidence of poverty in the whole period, while for the other households the relative disadvantage changes over time. This could depend on political cycles and implemented policies. In general, differences across households decrease over time: in the 80’s groups are more different than in 2010. However, a clear convergence appears for smaller household (1 to 3 components), while biggest households seem to suffer more as time elapses and they diverge from other groups significantly.

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⁵ Data from the “Indagine sui consumi delle famiglie”
⁶ International Standard of Poverty Line
2.4 Cumulative disadvantage

Social exclusion is a relatively new concept defining a very complex and multidimensional phenomenon referred to the relative position of an individual or a group of people in the society.

Social exclusion is a much broader concept than income poverty since it takes into account many other factors that leave subgroups of the population isolated. Obviously, there is a causal link between poverty and social exclusion but there is a well-developed consensus on other
determinants. Among the others, the possible main determinants of social exclusion are the lack of affordable housing, low paying jobs, substance abuse, mental illness, lack of needed services, domestic violence, unemployment, prison release and re-entry into society, changes and cuts in public assistance. In general, social exclusion is the outcome of a very complex process in which a variety of causes act together. In recent years national strategies in most European countries refer less to poverty and more to social exclusion. Social exclusion should be characterized as a multidimensional phenomenon concerned with income as long as with a wide variety of living standards. Exclusion can be either economic, political or cultural through different mechanisms and institutions. Social exclusion relates to being unable to enjoy levels of participation that most of society takes for granted.

Figure 29 plots the share of people at risk of social exclusion. This indicator takes into account poverty rate after social transfers, people experiencing severe material deprivation and people living in households with very low work intensity. In Italy almost 15 million people are at risk of social exclusion and the National Reform Programme aims to reduce them at 2.2 million by 2020. Despite the economic crisis, the share of families in this condition is quite stable during the last years, although higher than the E.U. average.

Also in this indicator we find a significant geographical variation within the country, as in the South – as one would expect – the incidence is 2 percentage points higher. The 57 percent of those at risk of social exclusion live in Southern regions, where there is about one third of the national population.

![Figure 29: People at risk of social exclusion (%)](image)

Source: Eurostat

2.5 Intergenerational mobility, for education and occupation

As we have seen in the Introduction, Italy has a well-established reputation of being a country characterized by a low intergenerational mobility of income as compared to other developed
countries, as shown for instance in Mocetti (2008), Piraino (2007), and Comi (2004). More specifically on the link between education and income mobility, Checchi, Ichino e Rustichini (1999) display that Italy has a lower degree of mobility than the US, and they claim that a too egalitarian educational system at tertiary level is likely to tighten the link between family background and outcomes in the labour market. Furthermore, Checchi and Flabbi (2009) show that the track choice at the secondary level in Germany is less affected by parental education than in Italy. Hence, education and income (im)mobility are likely to be related in a potentially vicious circle. This may happen in spite of the fact that returns to education in Italy are not much different from the average of other developed countries (Psacharopoulos, 2009) although they show a decreasing pattern over time that characterizes particularly the higher quantiles (Scognamillo, 2011). In this section we try to gather additional evidence on this matter. Due to the difficulty of analysing income mobility in Italy because of the lack of suitable data, we use mobility in occupations as a proxy. We do not find signals that the degree of mobility of the Italian society is improving, either in education or in occupational status.

**Mobility in Education**

As far as education is concerned we have estimated transition matrices from the EU-SILC 2005 dataset, comparing educational attainments of subsequent generations along a gender dimension (father-son, mother-daughter). Table 4 shows the transition matrices by gender of the whole sample of respondents aged 25-65, showing that the offspring achieve on average higher degrees than their parents. This stylized fact, however, mainly captures the late scholarisation characterizing the Italian population as well as some legislative interventions increasing compulsory education, but it does not say much about mobility per se. For this reason we have divided the sample of respondents in four cohorts (≤35; 36-45; 46-55; ≥56 year old) of roughly the same size in order to mimic the intertemporal pattern of mobility by gender. The table shows the percentage of sons (daughters) who reached each education level conditional to the education level of their fathers (mothers).

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7 See Meschi and Scervini (2010) about the comparability of educational measures across different datasets.
Table 4: Transition matrices of educational attainments, whole sample

<table>
<thead>
<tr>
<th></th>
<th>Primary</th>
<th>Lower Secondary</th>
<th>Upper Secondary</th>
<th>Tertiary</th>
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<tbody>
<tr>
<td>Son</td>
<td>Father</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>0.2265</td>
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<table>
<thead>
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<th></th>
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<th></th>
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</thead>
<tbody>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>0.3860</td>
<td>0.4988</td>
</tr>
<tr>
<td>Tertiary</td>
<td>0.0431</td>
<td>0.0574</td>
<td>0.1914</td>
<td>0.7081</td>
</tr>
</tbody>
</table>

Our computations on EU-SILC (2005)

From a gender perspective, female situation has dramatically improved over time. Figures from 30 to 33 display the ergodic distributions of educational levels by cohort, i.e. the frequency that would be eventually observed projecting into the future the transition probabilities observed in every cohort. While the distribution implied by the oldest cohort (Figure 30) implies strongly unequal educational attainments, the frequency is already balanced for the cohort 46-55 years old (Figure Fout! Verwijzingsbron niet gevonden.), and appears even more promising for females as far as the two younger cohorts are concerned.

Analyzing the intertemporal pattern of mobility we find that indicators steadily improve for females but not for males. It deserves to be stressed that the ergodic distribution captures the hypothetical situation that would be obtained after an infinite number of generations. Therefore, a better ergodic distribution is consistent with a worse current situation, as it is for instance the case for females in the cohort 46-55 (see Table 5). Hence, the reason for the aforementioned decoupling is likely to be found in the catching-up process that characterized the female population in the past decades.

Focusing on males instead we find that mobility did not improve in the last three cohorts. Both indicators (an immobility index and the ratio between upward and downward mobility) point towards a stagnant situation (see Table 6).

Our results are in line with the evidence provided by Brunetti and Fiaschi (2011) and Fiorio and Leonardi (2010) who rely upon a different dataset, namely the Bank of Italy’s Survey on Household Income and Wealth (SHIW).
GINI Country Report *Italy*

**Figure 30: Ergodic distribution, Cohort 56+, males (blue) female (pink)**

![Ergodic distribution, Cohort 56+, males (blue) female (pink)](image1)

Our computations on EU-SILC (2005)

**Figure 31: Ergodic distribution, Cohort 46-55, males (blue) female (pink)**

![Ergodic distribution, Cohort 46-55, males (blue) female (pink)](image2)

Our computations on EU-SILC (2005)

**Figure 32: Ergodic distribution, Cohort 36-45, males (blue) female (pink)**

![Ergodic distribution, Cohort 36-45, males (blue) female (pink)](image3)

Our computations on EU-SILC (2005)
Our computations on EU-SILC (2005)

Table 5: Current and ergodic distribution of educational attainments, cohort 46-55

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
<td>Lower Secondary</td>
<td>Upper Secondary</td>
<td>Tertiary</td>
</tr>
<tr>
<td>Current</td>
<td>0.167</td>
<td>0.342</td>
<td>0.314</td>
<td>0.177</td>
</tr>
<tr>
<td>Ergodic</td>
<td>0.030</td>
<td>0.110</td>
<td>0.290</td>
<td>0.570</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Females</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
<td>Lower Secondary</td>
<td>Upper Secondary</td>
<td>Tertiary</td>
</tr>
<tr>
<td>Current</td>
<td>0.238</td>
<td>0.318</td>
<td>0.301</td>
<td>0.143</td>
</tr>
<tr>
<td>Ergodic</td>
<td>0.052</td>
<td>0.098</td>
<td>0.220</td>
<td>0.630</td>
</tr>
</tbody>
</table>

Table 6: Educational attainments: Indicators of mobility

<table>
<thead>
<tr>
<th></th>
<th>Males</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Immobility Index</td>
<td>Upward/Downward</td>
<td>Immobility Index</td>
<td>Upward/Downward</td>
</tr>
<tr>
<td>Cohort</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35-</td>
<td>1.77</td>
<td>2.84</td>
<td>1.62</td>
<td>1.27</td>
</tr>
<tr>
<td>36-45</td>
<td>1.49</td>
<td>4.42</td>
<td>1.52</td>
<td>4.69</td>
</tr>
<tr>
<td>46-55</td>
<td>1.53</td>
<td>3.82</td>
<td>1.42</td>
<td>5.20</td>
</tr>
<tr>
<td>56+</td>
<td>1.50</td>
<td>4.15</td>
<td>1.38</td>
<td>6.19</td>
</tr>
</tbody>
</table>

Immobility index: ratio between the frequencies in the main diagonal as compared to the case of perfect mobility.
Upward/Downward: ratio between the frequencies above over frequencies below the diagonal.

**Mobility in Income and Occupational Status**

Scarcity of longitudinal dataset makes extremely difficult to analyse the intergenerational persistence of incomes in Italy. An attempt to circumvent this problem has been proposed by Mocetti (2008) and
Piraino (2007) using the SHIW dataset.\textsuperscript{8} They both find that the degree of intergenerational persistence is high, although their estimates differ substantially both in terms of level (0.84 and 0.48, respectively) and as far as the fraction of the correlation that is explained by the educational channel (60% and 28%, respectively).

We consider the occupational status a sufficiently close proxy for family income, and therefore we replicate the same exercise described above as far as education is concerned, analysing the transition matrix that compares the occupational status of the subjects surveyed in the EU-SILC 2005 dataset with the occupational status of their father.\textsuperscript{9} We classify the occupations in 7 different categories: 1) services (high); 2) services (low); 3) routine non-manual; 4) employer or self-employed; 5) skilled and semi-skilled manual; 6) unskilled manual and services; 7) farm. Table 7 shows the transition matrix for the whole sample.

Occupational categories, unlike educational attainments, cannot be monotonically ranked because some categories (self-employed and farm) are very heterogeneous. This prevents to define upward and downward mobility in a meaningful way. Nevertheless, breaking up the sample by cohort we can notice that even as far as occupational status is concerned the main message is that mobility did not increase much in the last decades. For instance, the probability that a child of an unskilled worker ends up in the services increases from 0.18 to 0.22 from the first to the second cohort, and they stay constant at that level for the subsequent cohorts. Using a more comprehensive indicator like the immobility index we see that not only it does not decrease, apart from the 1\textsuperscript{st} to the 2\textsuperscript{nd} cohort, but there are even signs of a deterioration of the situation for the youngest cohort (see Table 8).\textsuperscript{10}

Similar insights can be derived comparing the ergodic distribution by cohort (see Figure 34) in which a striking upward trend in immobility emerges for the unskilled jobs, in line with the findings of Brunetti and Fiaschi (2011) who also stress the reduction in mobility of occupational status for the most recent cohorts.

---

\textsuperscript{8} Both used the two-sample 2-stage estimation methods, namely imputed incomes to the parent generation from one dataset, and then regressed the income of the children generation onto the estimated income of the corresponding fathers.

\textsuperscript{9} Differently from the case of education, here we compare both males and females with the father.

\textsuperscript{10} Note that this probably underestimate the worsening of immobility since the youngsters had less time to search and find their ideal or permanent position.
Table 7: Transition matrices of occupational status, whole sample

<table>
<thead>
<tr>
<th>Father</th>
<th>High service</th>
<th>Low service</th>
<th>Routine nonmanual</th>
<th>Self-employed</th>
<th>(Semi)skilled manual</th>
<th>Unskilled</th>
<th>Farm</th>
</tr>
</thead>
<tbody>
<tr>
<td>High service</td>
<td>0.323</td>
<td>0.252</td>
<td>0.161</td>
<td>0.118</td>
<td>0.024</td>
<td>0.114</td>
<td>0.008</td>
</tr>
<tr>
<td>Low service</td>
<td>0.159</td>
<td>0.312</td>
<td>0.207</td>
<td>0.103</td>
<td>0.060</td>
<td>0.151</td>
<td>0.009</td>
</tr>
<tr>
<td>Routine nonmanual</td>
<td>0.128</td>
<td>0.245</td>
<td>0.286</td>
<td>0.101</td>
<td>0.062</td>
<td>0.165</td>
<td>0.013</td>
</tr>
<tr>
<td>Self-employed</td>
<td>0.097</td>
<td>0.184</td>
<td>0.180</td>
<td>0.229</td>
<td>0.078</td>
<td>0.217</td>
<td>0.015</td>
</tr>
<tr>
<td>(Semi)skilled manual</td>
<td>0.077</td>
<td>0.180</td>
<td>0.195</td>
<td>0.125</td>
<td>0.149</td>
<td>0.266</td>
<td>0.008</td>
</tr>
<tr>
<td>Unskilled</td>
<td>0.053</td>
<td>0.162</td>
<td>0.176</td>
<td>0.130</td>
<td>0.106</td>
<td>0.355</td>
<td>0.019</td>
</tr>
<tr>
<td>Farm</td>
<td>0.044</td>
<td>0.106</td>
<td>0.116</td>
<td>0.153</td>
<td>0.128</td>
<td>0.335</td>
<td>0.118</td>
</tr>
</tbody>
</table>

Table 8: Occupational status: immobility index

<table>
<thead>
<tr>
<th>Cohort</th>
<th>Immobility Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>35-</td>
<td>1.88</td>
</tr>
<tr>
<td>36-45</td>
<td>1.68</td>
</tr>
<tr>
<td>46-55</td>
<td>1.77</td>
</tr>
<tr>
<td>56+</td>
<td>1.76</td>
</tr>
</tbody>
</table>

Immobility index: ratio between the frequencies in the main diagonal as compared to the case of perfect mobility.

Figure 34: Occupational status: Ergodic distribution by cohort

![Ergodic distribution by cohort](image)

Our computations on EU-SILC (2005)

2.6 Family formation and breakdown

Family formation in Italy has declined steadily starting from the 70’s and in 40 years more than halved. Figure Fout! Verwijzingen niet gevonden. shows the crude marriage rate, that is the number of marriages formed each year as a ratio to 1,000 people. As almost all OECD and EU countries, Italy experienced a noticeable decline in the crude marriage rate: the number of marriages every 1,000 inhabitant were almost 8 in the early 70s they and they reduced at less than 4 in 2010. However, as it has already been discussed in the previous section of this report, in Italy the
Weakening of family bonds can have a particularly strong effect on inequality, as the family has a strong role in providing extra-market income to those who are worst-off on the market (for instance young people trapped in bad jobs).

Together with the decline in the marriage rate, the country experienced a decrease in the proportion of first marriages in the total number of marriages and an increase in the mean age at first marriage which reaches 31 years in 2010. Two reasons can explain the substantial increase in the average age of marriage: the increase in remarriage and the growing number of couples who live together before marriage.

Figure 35: Crude marriage rate

![Graph showing crude marriage rate](image)

Source: ISTAT

Similarly, during the same period, the country experienced a steady increase in the number of marital breakdowns. In Italy, divorce was legally introduced in 1970. Figure 36 displays the crude divorce and separation rate, defined as the ratio of the number of marriages which are dissolved in a given year to the average population in that year. Divorce rate has a first peak in the years immediately after its legalization, then it declines and remains fairly stable for a decade (1975–1985) and finally it constantly increases until 2010. However, according to the Italian law some years are required before a legal separation become a divorce. Considering this second measure of family breakdown, we observe a constant upward trend until 2003 and only in recent years separations slightly decline. Most EU and OECD countries have a similar dynamic: divorce rates increased in most countries although with very large cross-country variation. The marked increase in the divorce rate does not translate in changes in the mean duration of marriages. In Italy the average duration of marriage is fairly stable above 15 years.

While until the early 60s, in almost all Western countries, marriage was a prerequisite for a couple to live together and have children, nowadays cohabitation is an alternative to marriage. Also Italy
experienced an increase in the number of unmarried cohabitation, of single household and of second marriages (Figure 37). In addition also lone parent families increase substantially in the last forty years.

Beside the increasing trend in cohabitation, it is important to highlight that the incidence of this new form of family formation is significantly low in Italy compared to other North – Western countries. Some authors explain this delay in the adoption of the new habit because of cultural specificities of the Italian society, namely the strong ties between parents and children, anthropologically rooted in the Italian society. We do would not give much credit to this kind of culturalistic explanations. If family bonds in Italy are comparatively stronger, this is a function of the historical weakness of other collective agents, the state in particular. Of course, structural patterns can be reinforced by cultural attitudes. However, Italy is following, albeit with some delay, the general European trend: cohabitations are becoming common and more than doubled in the last twenty years, reaching the 4% (although in other countries they represent from 10 to 20 percent of the households).

Figure 36: Divorce and legal separation rate

Source: ISTAT
All these changes translate in a significant change in the average family size. Considering secular data from Census, Figure 38 shows the trends in the average household dimension over the last century. It is striking to observe the increase in the share of single person household over the total number of households and the symmetric decrease in the share of larger households. Nowadays, just almost 50% of households have one or two members. This of course weakens the (already low) capacity of the family to redistribute opportunities from their luckier members (adults, mostly males, with permanent employment) to the unluckier ones (young people, mostly women, with atypical, unstable and low paid jobs).
2.7 Health inequality

The main features of the Italian demography are a very low fertility, very high levels of life expectation, a negative sign of natural increase and a positive balance between immigrants and emigrants, with persistent regional variability. Such patterns are typical of Southern European states, while the strong and persistent regional variability is, as we have seen, a typically Italian feature. The dynamic of these indicators over the last decades is shown in Figure 39. Considering the trend over the last century, it emerges a clear downward trend (except for unusual negative peak during the two world wars) until the mid-80s and then an almost constant dynamic.

In addition, as in most other countries fertility rate is increasing over the last years thanks to migration flow from high – fertility countries. The country experienced also an increase in the share of births outside marriage. Because of the very low fertility and high age at childbearing, Italy stands alone in the European context. In addition the fertility decline occurred without any radical change in family formation: individuals continue to choose religious marriage for leaving parental home but they tend to postpone this life cycle stage.

Health status as measured by life expectancy and infant mortality rate has improved markedly over the twentieth century. Figure 40 shows the median age of death during the last forty years, while Figure 41 shows the infant mortality rate, defined as the number of deaths per 1000 live births. Both indicators display a similar trend for men and women. For what concerns health status we observe a positive gender gap: females have a higher median age of death and a lower infant mortality rate.

![Figure 39: Demographic indicators](image)

Source: ISTAT
Indicators of individual health status can be constructed considering the incidence of chronic diseases (diseases or other health conditions that are persistent or long-lasting). Figure 42 and 43 show the percentage of the Italian population having some chronic diseases. In the last twenty years we do not observe a clear improvement in the individual health status. Hypertension and diabetes are increased both for males and females. Breathing problems decrease for males and are fairly stable among females, while cardiovascular problems decline among females and are stable among males.
However, it is worth saying that the two genders have different attitudes towards risky behaviour such as malnutrition, lack of physical activity, smoking and drinking. Typically, the abuse of non-healthy food translates in overweight that is correlate with the majority of the previous chronic diseases. According to international standards, an individual is defined as overweight when her body mass index ranges between 25 and 30, while she is defined as obese when the body mass index is above 30. As shown in Figure 44 overweight have increased from 1990, especially among men while
for women is almost stable as a result of the adoption of a sedentary lifestyle and the leave of the Mediterranean diet. The problem is increasing especially among children and pre-adolescent.

**Figure 44: Share of overweight population**

![Graph showing the share of overweight population from 1990 to 2009, with separate data for males, females, total, and Gini index.](source: ISTAT)

Figure 45 shows the share of smoking population. In this case we observe a progressive adoption of a positive and healthy lifestyle since the percentage of smoking people have significantly decreased in the last twenty years. The behavioural change is particularly evident among men and after 2005 when smoking has been banned from all public places. A similar pattern does not emerge for drinking. The percentage of usual drinkers among men on average increases, while among women it decreases. In the male sub sample people who drink more than 0.5 l of wine per day more than halved, while in the female sub sample this behaviour is almost absent. Both among men and women there is an increasing habit to drink beer every day, while drinking wine is slightly less frequent.
2.8 Housing

Italy is among the European countries that come closer to the model of a “society of homeowners” championed, among others, by former US President George W. Bush (Gallino 2011). According to Census data, a strong trend towards this model can be observed since the end of World War II: in 1951 houses occupied by their owners were about 40%, in 1961 about 45.8%, in 1971 about 50.8%, in 1981 about 58.9%, in 1991 about 68%. Figure 48, using Eurostat data, shows that among the big Western European countries only Spain has a higher rate of households owning the house they are living in. One has also to consider an additional 14.8% of the households who, always according to Eurostat data, do not own the house but are renting it for free or at a reduced price, in most cases because of family relations. Another feature of the Italian housing market that has to be taken into account from the point of view of social inequality is that public housing, after a secular expansion during the last century has now shrunk to about 5% of the total (Allen 2004).
This situation, however, is not the outcome of public policies purposely designed towards the aim of a home-owner society, but the result of a complex set of political, economic and socio-cultural factors (Poggio 2009; Filandri 2011). In fact, in recent years there has been no systematic public program designed to ease access to loans, despite the Italian credit market being comparatively rigid. The only public policy that was intentionally designed with the aim to spread home ownership has probably been the selling out of the public estates, that since the 80’s has allowed many urban working class tenant households to buy the house they were living in. In rural areas, a similar role was played by tolerance of unauthorized construction, that allowed a massive wave of self-build, especially in the 70’s and 80’s, at the cost of massive damages to the landscape and to the environment. Other factors include the regulation of the house renting market, introduced in the 70’s with a strong bias in favour of the tenants, that has significantly limited the market; the low geographical mobility of Italians and the experience of strong inflation in past decades have also weakened the rent market.

Besides contributing to the wealth of the household, often as the main asset, home ownership is also associated to a better standard of living. On average, tenant households live in smaller homes with less living space, more frequently affected by heating or humidity problems, and more frequently located in neighbourhoods affected with criminality, vandalism and pollution. However, cases of serious housing deprivation (such as living in caravans or barracks) are below 1% of the population, although the percentage gets higher in weaker social groups, such as elders living in rural areas, unemployed illegal migrants and the like. For the latter, also serious problems of home-crowding are reported (Filandri 2011).
Table 9: Title to use the home, by social class, 2005.

<table>
<thead>
<tr>
<th></th>
<th>Owner</th>
<th>Family owned</th>
<th>Rent</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bourgeoisie</td>
<td>71.5</td>
<td>12.3</td>
<td>13.6</td>
<td>2.5</td>
<td>100</td>
</tr>
<tr>
<td>Clerks</td>
<td>70.3</td>
<td>11.9</td>
<td>15.7</td>
<td>2.2</td>
<td>100</td>
</tr>
<tr>
<td>Urban petty bourgeoisie</td>
<td>68.9</td>
<td>15.9</td>
<td>13.5</td>
<td>1.7</td>
<td>100</td>
</tr>
<tr>
<td>Agricultural petty bourgeoisie</td>
<td>72.5</td>
<td>15.0</td>
<td>5.0</td>
<td>7.5</td>
<td>100</td>
</tr>
<tr>
<td>Urban working class</td>
<td>62.8</td>
<td>12.2</td>
<td>21.4</td>
<td>3.6</td>
<td>100</td>
</tr>
<tr>
<td>Agricultural working class</td>
<td>54.9</td>
<td>17.6</td>
<td>21.6</td>
<td>5.9</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>67.1</td>
<td>13.0</td>
<td>17.1</td>
<td>2.8</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Filandri (2011). The figures are compiled with ILFI data, so they differ slightly with the ones given above.

Table 9 shows how home ownership is distributed across social classes. Despite most of the households owning their house, still an association between social class and home ownership can be observed, with more than 1/5 of working class households renting their home. Moreover, households from the upper classes live in more valuable and larger houses. These associations of course result in a cumulative structure of disadvantage, where home ownership and the features of the home adds up to income and other factors measured by the social class.

As a substantial part of a household’s wealth, home ownership is also a part of the intergenerational reproduction of inequality. In fact, the ownership of the home and its features are strongly affected by the resources of the family of origin: in more than 40% of cases, home ownership is the result of a donation, which in almost all cases takes place within the (often extended) family. Such a major role of the family in structuring home ownership, as well as the weakness of the intervention of the state in the housing market are of course complementary to the features of the Italian welfare state, which has a strong bias towards the family as a source of welfare provision. Like in other spheres of life, also in home ownership this bias results in an advantage for the higher classes. Table 10 gives more detail on how households belonging to different social classes differ in the way they become home owners.

---

11 Social classes are defined as occupational classes. The Italian version of the EGP class schema is used here.
Table 10: How did the household become home owner, by social class, 2005.

<table>
<thead>
<tr>
<th></th>
<th>Donation</th>
<th>Bought</th>
<th>Loan</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bourgeoisie</td>
<td>51,5</td>
<td>21,3</td>
<td>24,9</td>
<td>2,4</td>
<td>100.0</td>
</tr>
<tr>
<td>Clerks</td>
<td>39,1</td>
<td>28,9</td>
<td>28,9</td>
<td>3,1</td>
<td>100.0</td>
</tr>
<tr>
<td>Urban petty bourgeoisie</td>
<td>42,8</td>
<td>27,8</td>
<td>22,4</td>
<td>7,0</td>
<td>100.0</td>
</tr>
<tr>
<td>Agricultural petty</td>
<td>45,4</td>
<td>30,8</td>
<td>13,0</td>
<td>10,8</td>
<td>100.0</td>
</tr>
<tr>
<td>Agricultural working class</td>
<td>44,3</td>
<td>33,7</td>
<td>15,3</td>
<td>6,7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>42,6</td>
<td>29,1</td>
<td>21,1</td>
<td>7,2</td>
<td>100.0</td>
</tr>
</tbody>
</table>


The familiar transmission of home ownership is more frequent for bourgeois households: more than half of them received their home by a donation process, compared to about 40% of the working class households. Conversely, one third of the latter have bought it, compared to one fifth of the former.

2.9 Social cohesion

There is no space to enter the debate on the definition of social cohesion, a concept introduced and promoted more by government officers in charge of social polices than by social scientists. Here, we will identify it with the concept of social capital, defined as those “features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions” (Putnam 1993: 167). If one considers the official definition of social cohesion used by official EU documents, namely “the capacity of a society to ensure the well-being of all its members, minimising disparities and avoiding marginalisation” (Council of Europe 2008), it is clear that, although not overlapping, the two concepts are closely related: a society with a higher level of social capital will be more able to ensure well-being and equality to its members as will more easily take coordinated, system-wide action aimed to these ends.

In socio-economic literature, social capital is measured by means of attitude variables, such as civicsness or generalized trust; behavioural variables, such as political and civic participation; structural variables, such as the individual’s embeddedness in networks of relations who can be “bridging”, open and including; or “bonding”, closed and excluding. The latter kind of embeddedness in social networks is of course a negative indicator of social capital.

As a consequence of some central features of its society (see the Introduction above for a brief sketch), Italy has since long been a case study for social capital, and is typically found a) to have
comparatively low levels of social capital; b) to have a strong internal variation of it, with the Southern regions having much less social capital than the Northern ones. Edward Banfield (1958), in his celebrated study of a small Southern Italian rural community, found its citizens to lack “civicness” and to behave according to what he called “amoral familism”, that is a focus on particular interests (mostly those of the enlarged family) rather than on general ones. Political scientists Almond and Verba (1963) compared “civic culture” in five countries, finding Italians to have low scores on this variable and explained these attitudes by the weakness of Italian institutions. Putnam (1993) found civicness to be a major cause of differences among Italian regions’ economic and institutional performance, and found it also to be negatively related to inequality. OECD (2001), measuring social capital as trust in others, found Italians to have comparatively low levels of it, while Ballarino and Schadée (2005), comparing Italian provinces, found the distribution of social capital to be polarized between North and South, and showed social capital to be positively related, in the long run, to both economic performance and social equality. Finally, Eurostat (2010) looks at the percentage of citizens who participate to 7 types of informal social activities\textsuperscript{12}, and shows Italy (and France) to be among the countries with the lowest level of participation. Only countries from the former Soviet bloc show consistently lower levels of participation. On the contrary, Italy ranks among the countries with the highest frequency of contacts with friends and relatives. One could comment that the tradition of amoral familism appears to be well alive in Italy.

\textbf{Table 11: Correlations between indicators of social capital and inequality, Italian regions, circa 2000}

<table>
<thead>
<tr>
<th>Social capital indicators</th>
<th>Trust</th>
<th>Turnout at referenda</th>
<th>Blood donations</th>
<th>Social participation</th>
<th>Bridging networks</th>
<th>Bonding networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>GINI index of households’ income</td>
<td>-0.4321</td>
<td>-0.8098</td>
<td>-0.5866</td>
<td>-0.5006</td>
<td>-0.7915</td>
<td>0.6192</td>
</tr>
<tr>
<td></td>
<td>(0.0157)</td>
<td>(0.0000)</td>
<td>(0.0067)</td>
<td>(0.0046)</td>
<td>(0.0000)</td>
<td>(0.0036)</td>
</tr>
<tr>
<td>GINI index of households’ wealth</td>
<td>-0.0805</td>
<td>-0.4696</td>
<td>-0.2662</td>
<td>-0.222</td>
<td>-0.312</td>
<td>0.0698</td>
</tr>
<tr>
<td></td>
<td>(0.736)</td>
<td>(0.0367)</td>
<td>(0.2565)</td>
<td>(0.3469)</td>
<td>(0.1796)</td>
<td>(0.77)</td>
</tr>
<tr>
<td>Average log deviation of households’ income</td>
<td>-0.4527</td>
<td>-0.8198</td>
<td>-0.5964</td>
<td>-0.4921</td>
<td>-0.8193</td>
<td>0.6643</td>
</tr>
<tr>
<td></td>
<td>(0.0145)</td>
<td>(0.0000)</td>
<td>(0.0061)</td>
<td>(0.0275)</td>
<td>(0.0000)</td>
<td>(0.0014)</td>
</tr>
<tr>
<td>Average log deviation of households’ wealth</td>
<td>-0.0859</td>
<td>-0.4405</td>
<td>-0.3913</td>
<td>-0.1827</td>
<td>-0.3031</td>
<td>0.1053</td>
</tr>
<tr>
<td></td>
<td>(0.7187)</td>
<td>(0.0519)</td>
<td>(0.0880)</td>
<td>(0.4408)</td>
<td>(0.1939)</td>
<td>(0.6585)</td>
</tr>
</tbody>
</table>


\textsuperscript{12} The activities are: helping others; political parties or trade unions; professional associations; churches or other religious groups; recreational groups; charitable organizations; other groups or organizations.
Table 11 shows the correlation between a set of indicators of social capital and inequality at the regional level, and confirms the findings of the literature concerning the association between social capital and economic inequality. The correlations between inequality measures and social capital indicators are negative, in particular when we look at inequality of incomes. The only positive correlations to be found are those with “bonding” social capital, as the theory would predict: a high level of bonding social capital is associated with cliques and closed social networks, which foster economic inequality.

Of course correlations leave the question of the causal direction unanswered. While Putnam (1993) insisted on civicness causing economic performance (and inequality), at least in the long historical run, Ballarino and Schadee (2005) showed that causality runs in both directions, but with different timings: the effect of social capital on economic performance works with a longer lag than the effect of economic performance on social capital. Probably there are mechanisms involving socialization that render those who are raised and educated in a more civic environment better suited for cooperation and coordinated action, overcoming opportunistic behaviours and thus increasing economic efficiency.

Table 12, taken from di Blasio and Nuzzo (2011), tests the inverse relation, namely the causal effect of local-level economic inequality on the probability of three types of individual behaviour producing social capital (civic participation, political participation and belonging to associations), controlling for the relevant individual features (age, age squared, sex, familiar condition, education and occupation). In the lower panel, a dummy variable for the South is entered into the model, in order to control the strong variation between Southern and Northern regions. Results show that, controlling for the level of income/wealth, individuals living in areas with a more unequal distribution of income or wealth have a lower probability of acting pro-social behaviours.

The dummy “south” indicates that much of the effect of inequality on civic participation is absorbed by a “south” fixed effect but for the other cases the effect of inequality has an impact also within regions controlling for the fixed effect.
Table 12: Effect of economic inequality on pro-social behaviour, circa 2000

<table>
<thead>
<tr>
<th></th>
<th>CIVIC</th>
<th></th>
<th>POLITICS</th>
<th></th>
<th>ASSOCIATIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Wealth</td>
<td>Income</td>
<td>Wealth</td>
<td>Income</td>
<td>Wealth</td>
</tr>
<tr>
<td>GINI index of regional</td>
<td>-11.115***</td>
<td>-6.058***</td>
<td>-0.345</td>
<td>-0.528**</td>
<td>-1.295***</td>
<td>-0.726***</td>
</tr>
<tr>
<td>income/wealth per capita</td>
<td>(3.852)</td>
<td>(2.827)</td>
<td>(0.311)</td>
<td>(0.224)</td>
<td>(0.235)</td>
<td>(0.171)</td>
</tr>
<tr>
<td>Regional income/wealth</td>
<td>1.695***</td>
<td>1.244***</td>
<td>0.081*</td>
<td>0.068***</td>
<td>0.090***</td>
<td>0.008</td>
</tr>
<tr>
<td>per capita</td>
<td>(0.545)</td>
<td>(0.263)</td>
<td>(0.043)</td>
<td>(0.020)</td>
<td>(0.033)</td>
<td>(0.016)</td>
</tr>
</tbody>
</table>

controlling for the South

<table>
<thead>
<tr>
<th></th>
<th>CIVIC</th>
<th></th>
<th>POLITICS</th>
<th></th>
<th>ASSOCIATIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Wealth</td>
<td>Income</td>
<td>Wealth</td>
<td>Income</td>
<td>Wealth</td>
</tr>
<tr>
<td>GINI index of regional</td>
<td>-7.762*</td>
<td>-2.295</td>
<td>-0.946***</td>
<td>-0.669***</td>
<td>-1.207****</td>
<td>-0.654***</td>
</tr>
<tr>
<td>income/wealth per capita</td>
<td>(4.147)</td>
<td>(2.878)</td>
<td>(0.338)</td>
<td>(0.230)</td>
<td>(0.260)</td>
<td>(0.177)</td>
</tr>
<tr>
<td>Regional income/wealth</td>
<td>0.340</td>
<td>-0.497</td>
<td>0.302</td>
<td>0.123***</td>
<td>-0.118**</td>
<td>-0.018</td>
</tr>
<tr>
<td>per capita</td>
<td>(0.827)</td>
<td>(0.384)</td>
<td>(0.064)</td>
<td>(0.020)</td>
<td>(0.049)</td>
<td>(0.023)</td>
</tr>
<tr>
<td>South (dummy)</td>
<td>-1.102**</td>
<td>-1.863***</td>
<td>0.182***</td>
<td>0.064**</td>
<td>-0.021</td>
<td>-0.029</td>
</tr>
<tr>
<td></td>
<td>(0.465)</td>
<td>(0.301)</td>
<td>(0.041)</td>
<td>(0.025)</td>
<td>(0.027)</td>
<td>(0.017)</td>
</tr>
<tr>
<td>N</td>
<td>3.798</td>
<td>3.798</td>
<td>3.798</td>
<td>3.798</td>
<td>3.798</td>
<td>3.798</td>
</tr>
<tr>
<td>method of estimation</td>
<td>OLS</td>
<td>OLS</td>
<td>Probit</td>
<td>Probit</td>
<td>Probit</td>
<td>Probit</td>
</tr>
</tbody>
</table>

Source: de Blasio and Nuzzo (2011).

2.10 Crime and punishment

Figure 49 shows the trend of total recorded crimes (divided by 1.000) and of homicide (perhaps the worst one), while figure 50 shows the trend of some of the most relevant types of crimes (source: Eurostat). The general trend of all recorded crimes is increasing until early 90’s, when it peaks, probably related to the internal Mafia wars that ravaged the South during that period. Then we observe a stable situation, with some signs of a declining trend in the last years.

The downward trend is particularly strong for homicides, also in international comparison. In 1980, the homicide rate in Italy was about the double of that of the other big western EU countries: the figure per 100.000 inhabitants was 1.9, compared to 1.0 in the UK, Spain and France, 0.9 in Germany, 0.8 in the Netherlands. In 2006, the Italian rate went down to around 0.7, compared to 1.4 in Spain (2004), 0.8 in France (2004) and in the Netherlands, 0.4 in the UK13.

---

13 The figure for the US is 10.5 for 1980 and 5.8 for 2004.
An overall downward trend, albeit with (sometimes strong) fluctuations, is evident also for other crimes (figure 50), such as domestic burglary, theft of motor vehicles and robbery. Violent crimes have a trend similar to that of total crimes seen above, while the only crime that does not seem on the decrease is drug trafficking. However, the latter trend probably depends on the introduction of tougher sanctions against drug consumption and commerce on the part of recent Italian governments, in the frame of the “war on drugs” policies.
Table 13 compares the Italian trends with those of the other 4 big Western European countries. A general downward trend can be seen, but with some fluctuation. In fact, Italian experts describe this trend as a “belated alignment to the European trends” (Barbagli and Colombo 2010).

### Table 13: Trend of selected types of crime, 5 big Western European countries

<table>
<thead>
<tr>
<th></th>
<th>Domestic burglaries</th>
<th>Theft of motor vehicles</th>
<th>Robberies</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>-5.2 -2.3</td>
<td>-2.9 -8.6</td>
<td>7.5 -0.3</td>
</tr>
<tr>
<td>Germany</td>
<td>-6.6 -3.5</td>
<td>-13.5 -4.5</td>
<td>-1.5 -1.6</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.7 -3.5</td>
<td>-4.5 1.2</td>
<td>18.5 0.7</td>
</tr>
<tr>
<td>UK</td>
<td>-9.0 -5.7</td>
<td>-7.9 -0.5</td>
<td>6.8 -2.4</td>
</tr>
<tr>
<td>Spain</td>
<td>na na</td>
<td>na -5.6</td>
<td>na -2.3</td>
</tr>
</tbody>
</table>


Which are the reasons of this trend? In fact, it is quite puzzling as it runs contrary to that of economic inequality, which is typically positively correlated to the diffusion of crime. Perhaps it is related to the general increase of wealth that was described above. However, there are closer reasons. One is the declining remuneration and increasing risk associated to some kind of crimes. For instance, car theft is now much more difficult than in the past, because of new technologies making thefts harder and stolen cars more difficult to sell. A peculiar Italian feature is kidnapping, once defined as “the Italian crime”, which was a big problem in the 70’s and 80’s (mostly in the South) but has since almost completely disappeared, thanks to better control of the territory on the part of the police and to a new law blocking all wealth of the victims. Another reason is stronger sanctions. The number of prisoners has in fact been on the rise, as can be seen in figure Fout! Verwijzingsbron niet gevonden..

It is interesting to add that this increasing trend, which started in the 1970, came after a secular trend of decrease of the population of imprisoned, and that a similar pattern is found in other European countries as well as in the US (Barbagli and Colombo 2011). But a stronger role in the reduction of crimes was probably played by the changing demographic composition of the population: it is well-known that young males are the social group more prone to crime, and their weight in the total population has decreased during the last decades.
2.11 Satisfaction, well-being, happiness

Happiness (or life satisfaction) is normally measured by means of answers to survey questions such as “Taking all together, how satisfied or dissatisfied are you with your life-as-a-whole these days?”, with answers variously scaled. According to Veenhoven (1993) there is a significant positive correlation between average happiness in nations and their performance in other output indicators of liveability, such as life-expectancy and mental distress (but not with suicide rates). Moreover, there is a similar correspondence between average happiness in nations and “the degree to which these nations provide material comfort, social equality, freedom and assess to knowledge. In other words: happiness in nations corresponds with their level of ‘development’ or ‘modernity’”. However, other scholars do not share these conclusions, and point instead to the so-called “Easterlin paradox”, that is the lack of correlation over time, at the individual level, between economic well-being and satisfaction with life. Beyond a given level of economic well-being, further increases of the same yield diminishing returns in terms of life satisfaction (Easterlin 1974; 2005). The problem is not settled yet.

According to survey data collected in the World Database of Happiness (Veenhoven 2011), and compiled in table Fout! Verwijzingsbron niet gevonden. Panel A, Italians are not among the happiest EU citizens: among the big Western countries, only France has a (slightly) worse performance. It is interesting to add that the comparative patterns of happiness come quite close to those of social capital (social cohesion) described above in section G, with the former Soviet countries at the bottom and the Scandinavian countries on the top of the ranking. However, the dispersion of the distribution of happiness in Italy lies in the middle of the EU range, and the level shows a strong increasing trend over the last three decades. This trend, about two times the one found for EU 15, is probably due to the strong growth of GDP that Italy experienced in the 70’s and 80’s. In fact, according the detailed trend graph reported by Veenhoven (2011), the trend is flat in the 90s and decreasing in the 2000s. A recent decline in life satisfaction in Italy is also reported by Istat (2007), and can be seen in table 14 Panel B. It has to be noted the lower level of satisfaction for housewives, an indicator of the weakness of the Italian social welfare regime.
Table 14: Evolution of Happiness

Panel A: Alternative measures of happiness

<table>
<thead>
<tr>
<th></th>
<th>level mean&lt;sup&gt;14&lt;/sup&gt;</th>
<th>trend 1973-2010</th>
<th>happy life years&lt;sup&gt;15&lt;/sup&gt;</th>
<th>happiness inequality&lt;sup&gt;16&lt;/sup&gt;</th>
<th>inequality-adjusted&lt;sup&gt;17&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>6.6</td>
<td>0.55</td>
<td>53</td>
<td>2.16</td>
<td>54</td>
</tr>
<tr>
<td>Germany</td>
<td>7.1</td>
<td>0</td>
<td>56.3</td>
<td>2</td>
<td>60</td>
</tr>
<tr>
<td>Italy</td>
<td>6.7</td>
<td>0.63</td>
<td>53.8</td>
<td>1.9</td>
<td>57</td>
</tr>
<tr>
<td>UK</td>
<td>7.1</td>
<td>0.26</td>
<td>56.4</td>
<td>2</td>
<td>60</td>
</tr>
<tr>
<td>Spain</td>
<td>7.2</td>
<td>0.29</td>
<td>58.4</td>
<td>1.81</td>
<td>62</td>
</tr>
<tr>
<td>EU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>highest-ranking</td>
<td>Denmark</td>
<td>na</td>
<td>Denmark</td>
<td>Netherlands</td>
<td>Denmark</td>
</tr>
<tr>
<td>(points)</td>
<td>8.3</td>
<td>na</td>
<td>65</td>
<td>1.42</td>
<td>63</td>
</tr>
<tr>
<td>EU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>lowest-ranking</td>
<td>Latvia</td>
<td>na</td>
<td>Latvia</td>
<td>Hungary</td>
<td>Hungary</td>
</tr>
<tr>
<td>(points)</td>
<td>5.4</td>
<td>na</td>
<td>38.6</td>
<td>2.48</td>
<td>42</td>
</tr>
<tr>
<td>EU 9</td>
<td>na</td>
<td>0.32</td>
<td>na</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

Panel B: Happiness in Italy: individuals aged > 14 reporting to be very and quite satisfied with various aspects of their daily life, 2001-2006

<table>
<thead>
<tr>
<th>year</th>
<th>own economic condition</th>
<th>health</th>
<th>family</th>
<th>friends</th>
<th>leisure</th>
<th>work workers and housewives</th>
<th>workers</th>
<th>housewives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>64</td>
<td>80.3</td>
<td>91.1</td>
<td>83.8</td>
<td>64.9</td>
<td>74.1</td>
<td>79.5</td>
<td>59.9</td>
</tr>
<tr>
<td>2002</td>
<td>57.3</td>
<td>80.5</td>
<td>91.7</td>
<td>84.3</td>
<td>65.2</td>
<td>74.1</td>
<td>79.1</td>
<td>60.2</td>
</tr>
<tr>
<td>2003</td>
<td>53.6</td>
<td>80</td>
<td>90.6</td>
<td>81.9</td>
<td>63.1</td>
<td>71</td>
<td>77.5</td>
<td>52.6</td>
</tr>
<tr>
<td>2005</td>
<td>49.7</td>
<td>80.1</td>
<td>90.6</td>
<td>82.9</td>
<td>63.7</td>
<td>69.8</td>
<td>76.3</td>
<td>51</td>
</tr>
<tr>
<td>2006</td>
<td>50.2</td>
<td>78.8</td>
<td>89.9</td>
<td>81.9</td>
<td>63.1</td>
<td>71.1</td>
<td>76.8</td>
<td>54.6</td>
</tr>
</tbody>
</table>

Source: compiled with data from Veenhoven (2011). For more technical details, see [http://www.worlddatabaseofhappiness.eur.nl](http://www.worlddatabaseofhappiness.eur.nl)
Source: Istat 2007, prospect 26.1 ([www.istat.it](http://www.istat.it))

<sup>14</sup> The happiness measures are based on responses to survey questions as: “Taking all together, how satisfied or dissatisfied are you with your life-as-a-whole these days?”, with answers on a 0-10 (or 1-10) scale. Surveys are from 2000 to 2009.

<sup>15</sup> ‘Happy Life Years’ is an estimate of how long and happy the average citizen will live in that nation in this era. Computation: 0-1 enjoyment of life multiplied by expected length of life.

<sup>16</sup> SD of happiness measured as detailed above.

<sup>17</sup> Inequality-Adjusted-Happiness is measured as a linear combination of the mean and the standard deviation of the distribution of happiness in a nation. This index is constructed so that a score of 100 means that everybody is completely happy, a score of 0 would represent the worst possible society with respect to both level and quality of happiness.
Given the high regional variation of both economic performance and social cohesion in Italy (see above), it is interesting to check the intra-national association between the two variables. According to the analyses reported by Cuffaro et al. (2007), Italian regions are divided in a Northern and a Southern cluster. This is not surprising, as we are already well aware of the importance of the geographical cleavage, but what is surprising is that while Northern regions show a higher level of economic well-being, Southern regions are better off from the point of view of social well-being. This finding comes quite close to what many Italians, not only Southerners, think, and according to the terms of the debate referred to at the start of this section, it gives some support to the Easterlin paradox. However, definition and measurement problems suggest caution (Easterlin 2005).

2.12 Conclusions: appraisal of the interdependence and the ‘national story’ of inequality drivers and their social impacts

While concluding the first section of this report we stressed the role played by labour market reforms in the redistribution of job opportunities among genders and age groups, with the family playing a role of shock absorber and “insurer-of-last-resort”, in this section we have shown that the institutionalised families is loosing appeal among young generations. This is a problem, given the strong role of Italian families as providers of extra-market opportunities: as single parent families and numerous families are more exposed to poverty risk, this role will inevitably weaken. One could of course call for a stronger role of the state, and an argument can even be put forward that the weakening of the family will force the state to increase its role as shock absorber and agent of equalization. However, this argument is more a matter of hope than of evidence.

For the time being the diffusion of house property in the population (80% of house owners is a high level for European standards), together with the low levels of household private debt, has certainly played a positive role in smoothing the effect of the current recession on inequality. However house ownership in the long run has negative effects on labour mobility and it is a powerful mechanism to reproduce inequalities across generations thanks to the low taxation of inheritances.

In fact, there is no necessity for the Italian family to continue playing the role of welfare provider (especially when it deteriorates into familism), as long as alternative collective networks emerge in response to the problem of increased uncertainty and social exclusion. But the problem is that this report suggests that Italy is not well-endowed of such networks producing social capital, which could replace the lack of universal welfare by the state. Even if crime does not appear high in the concerns of Italians (and trend data show that this perception is overall correct), still the lack of trust and
availability for volunteering in social activities does represent a problem for the Italian society, which lack a robust lever to increase social cohesion.

The opaque redistributive activity played by the state, which will be exposed in more detail in the next section and is more generally a function of the historical weakness of the Italian state, makes Italians more reluctant to raise their voice in support for greater redistribution, each preferring family transfers through home ownership. This is an example of the intersection of the individualistic and family mobilization strategies typical of Italian society. But of course, as it has been repeatedly stated in this report, this kind of mobilization against social risks further reduces intergenerational mobility, especially when the latter is measured in wealth.
3. Political and cultural impacts

3.1 Introduction

When considering political participation, Italy ranks quite high, despite the relatively high level of income inequality that has been documented above. However, the age divide seems important here, with young cohort exhibiting disaffection to traditional political representation. Education still remains a strong determinant of turn-out: thus young and uneducated citizens tend to lose political weight because of implicit withdrawal from political representation of their interests. This behaviour results, of course, in a low possibility on their part to exploit the possibilities of income and wealth redistribution provided by the democratic system.

Participation in civic activities is strongly affected by social conditions (proxied by income group) and by cultural factors (women participation lagging behind men’s one). Despite the high voting turnout, Italians’ trust in institutions remains low. The loss of confidence in the government and the disillusion with political representation may be responsible for the convergence towards the centre in the political self-assessment. Here we are in presence of another vicious circle, one that is typically Italian and is getting more relevant in the recent decades: weak governments produce low confidence in political institutions, and this in turn reinforces the weakness of the government and of the whole political system.

Increasing disillusion also extends to the activities of the European Union. Italians appear to be less and less concerned by “high policy in delegated democracies”, while continuing to play attention to the surrounding environment, as witnessed by rising xenophobia. Even the support for redistribution from poor interviewees has declined over time, despite the increasing inequality in the aggregate. Those who would benefit more from a strong government, who could effectively redistribute wealth and opportunities, do not believe in this possibility. Only rich families exhibit more awareness of the changed economic situation.

3.2 Political and civic participation

Political participation

A commonly used indicator for political participation is voting turnout. According to this indicator, political participation in Italy seems not to be a problematic issue. Participation rates have always
been very high in the post-war period and higher than 90% until the 70’s for Parliamentary elections. Figure 1 shows turnout rates for Parliamentary (lower chamber) elections and European Parliament elections in Italy, compared to the EU-average. Both levels and trends are higher than EU average, meaning not only that Italian participation rates are higher, but also that the gap is not closing.  

The reasons for these figures go back to the past century. During the three decades between the mid-50s and the mid-80s, political parties were deeply-rooted in Italian society and had a strong mobilisation power. Parties were well organised and involved in daily activities (political activity took place in factories, schools, companies, churches, leisure activities and so on) and their propaganda was very effective in mobilising people to vote. In some ways, this was an exceptional period in Italian political history, a kind of “golden age” for democratic political parties, who had been relatively weak in the liberal era (from 1861 to WW1) and were then abolished by Fascism. Quite paradoxically, after the war and the fall of Fascism democratic parties inherited a great part of the mass mobilization instruments developed by the totalitarian regime.

Secondly, vote was compulsory by law, and the law, even if never applied, was abrogated only in 1992. The effect of these two forces was a very high participation rate, almost independent of individual education or income (Segatti, 2011).

Italy experienced a severe political crisis in the early 90s, related to the fall of the Berlin wall, to the economic crisis of that time and, perhaps more importantly, to a series of unprecedented court prosecutions against top-level politicians for bribes, corruption and other types of malfeasance. It has to be noted that also the opposition Communist party was involved in the prosecutions, albeit in a lesser way than the Christian Democrats and the Socialists who had been governing together since the 60s. The crisis included a change of electoral system from proportional to majority voting, and other major institutional changes. In fact, the crisis was so strong that it is now usual, in Italian political parlance, to talk about a “second republic” starting somewhere between 1992 and 1994. The “first” one was the one created in 1946, as earlier Italy was a kingdom, even during Fascism. One should observe, however, that the distinction between “first” and “second” republic is not formalized in any way: this is why we always put the term between brackets.

As an effect of this crisis, the two forces favouring voting that were recalled above ceased to work. Compulsory voting was abrogated and, more important, traditional political parties disappeared and were replaced by much “lighter” institutions, no more able to mobilise citizens so effectively as the old ones were able to do. Moreover, the traditional dualism between the strongest Communist party

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18 Participation rates for local elections are usually lower than Parliamentary, but higher than EU Parliament elections. However, since they are fragmentated over time, it is not possible to provide aggregated figures.
of Western Europe and a Christian Democratic party fully supported by the Catholic church became much weaker after the collapse of the Soviet Union: this decreased the degree of cultural and political partisanship inherent to the political system, thereby lowering incentives to vote and participation rates.

Figure 49: Electoral turnout

![Graph showing electoral turnout from 1972 to 2008.]

Source: International Institute for Democracy and Electoral Assistance (www.idea.int)

However, voting is a kind of habit, so that “old” generations keep on going to vote at every election. Indeed, table 15 shows that individuals born between 1936 and 1965 have a stable pattern of participation around 90%. Younger cohorts experience high participation rates at the first election they are allowed to participate, but a steep decline afterwards (perhaps because of disillusion with the political system): individuals voting in 1994 for the first time (born in 1975-1976) had a significant decrease of participation rates, but even stronger is the decrease for first-voter in 1996 and in 2001. In addition, also participation rates at first election decreases dramatically over time: from 93.1% in 1994 to 86.6% in 2006.
Table 14: Electoral turnout in Parliamentary elections, by cohort of birth.

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1936-1955</td>
<td>91.7</td>
<td>91.2</td>
<td>91.1</td>
<td>89.8</td>
<td>-2.0</td>
</tr>
<tr>
<td>1956-1965</td>
<td>90.0</td>
<td>90.0</td>
<td>89.2</td>
<td>89.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>1966-1974</td>
<td>91.6</td>
<td>89.7</td>
<td>86.6</td>
<td>86.9</td>
<td>-4.7</td>
</tr>
<tr>
<td>1975-1976</td>
<td>93.1</td>
<td>90.9</td>
<td>85.3</td>
<td>86.3</td>
<td>-6.7</td>
</tr>
<tr>
<td>1977-1978</td>
<td>91.9</td>
<td>89.7</td>
<td>85.2</td>
<td>84.5</td>
<td>-7.4</td>
</tr>
<tr>
<td>1979-1983</td>
<td>87.7</td>
<td>83.2</td>
<td></td>
<td></td>
<td>-4.5</td>
</tr>
<tr>
<td>1984-1988</td>
<td></td>
<td>86.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total participation rate</td>
<td>89.5</td>
<td>86.4</td>
<td>85.0</td>
<td>83.6</td>
<td>-5.9</td>
</tr>
</tbody>
</table>

Source: Istituto Carlo Cattaneo (www.cattaneo.org)

Therefore, in Italy the relevant inequality dimension for political participation and electoral issues seems to be the cohort of birth. While people born before mid-60s were “educated” to vote and keep on practicing this good habit, younger cohorts grew up in a different political framework, so that their interest in politics is significantly lower. According to the more recent results, social and economic factors that explain different participation rates across classes (mainly income and education) are becoming increasingly relevant, since they are important much more in the new generation than they were in the older ones. Table 16 shows this effect for 2008 elections: participation rate gap between low- and high-educated people is negligible until cohort 1966-1975, but significantly higher, and rising, afterward. Moreover, while the decline of participation is virtually null for high-educated individuals, it is sizeable for the others. This means that the vicious circle between socio-economic inequality and political representation that was briefly outlined above, in the introduction to this section, tends to grow stronger over time.

Table 15: Electoral turnout in Parliamentary elections, by educational level.

<table>
<thead>
<tr>
<th>Cohort</th>
<th>Low educated</th>
<th>High educated</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936-1945</td>
<td>89.10</td>
<td>88.79</td>
<td>-0.31</td>
</tr>
<tr>
<td>1946-1955</td>
<td>92.75</td>
<td>92.75</td>
<td>0</td>
</tr>
<tr>
<td>1956-1965</td>
<td>88.72</td>
<td>91.63</td>
<td>+2.91</td>
</tr>
<tr>
<td>1966-1975</td>
<td>88.99</td>
<td>89.10</td>
<td>+0.11</td>
</tr>
<tr>
<td>1976-1985</td>
<td>82.26</td>
<td>87.18</td>
<td>+4.92</td>
</tr>
<tr>
<td>1986-1990</td>
<td>84.75</td>
<td>90.18</td>
<td>+5.43</td>
</tr>
</tbody>
</table>

Source: ITANES (www.itanes.org)

Even if general participation rates are satisfactory in Italy, there is a trend that should worry policy makers. While it seems impossible to recreate the political framework of the past, the vicious circle could be effectively addressed by investing in education. There is a vast literature on the positive
effects of education on political participation, and the case of Italy seems to follow this trend. Until two decades ago, this issue was hidden by the mobilising power of mass parties, but nowadays the gap between high- and low-educated people is increasing dramatically. However, the strongly increasing rates of schooling documented in the first part of this report could add some optimism to this discussion.

Civic participation

Civic participation is not necessarily correlated to political participation. Indeed, while Italy performs relatively well according to the latter, it does not seem to have a level of civic participation higher than other EU countries. This confirms the “exceptionality” of Italian strong political participation.

Among the possible ways to measure civic participation, we decide to use one indicator, the share of people member of any kind of organisation (including, among others, parties, labour unions, religious groups, social services for elderly or handicapped, sports and recreation activities and so on). A second indicator, the share of people working as a volunteer for the same kind of organisations, is very correlated to the latter (.7 for Italy), so that there is no need to analyse them separately. Figures 52 and 53 show clearly a dramatic gap in participation between income classes as well as between genders. With respect to the former (figure 52), there is a participation gap varying from about 10% to about 27%. This gap experienced a slight decline in the last decade, and it was not far from the average of EVS countries in 2008.\footnote{It must be noticed that the sample of countries included in EVS changed over time, so that EVS average is not always referred to the same group of countries.} With respect to gender, inequality is even stronger than for income: the gender gap in membership to association and organisation decreased very slowly from around 14% in 1981 to 10% in 2008. The comparison with other European countries is merciless for Italy: the gap is not only double in Italy, but the declining rate is slower. Last but not least, women participation rate declined of about 5% in the last decade from 1999 to 2008. The low civic participation of women is of course related to their low participation to the labour market, a central feature of the Mediterranean model of socio-economic regulation.

The only positive aspect is that the gap between Italy (in aggregate) and other countries almost closed in 2008. While Italy used to have a membership rate to organisation very low until the 90s (24% in 1981 vis-à-vis an average of almost 52% for EVS countries), in 2008 the gap was “only” around 5% (38% vs. 43%).
Unfortunately, it is not possible to disaggregate civic participation by educational classes, but a positive correlation between education and income can be assumed. If this is true, achieving educational equality is positive not only for political participation, as emerges from the previous paragraph, but also for civic participation.

A partly different indicator for civic participation is union density. Such an indicator is important also for its economic implications and summarizes characteristics of both political and civic participation. The trend of union density and of union coverage (the percentage of workers whose employment relation is regulated by the national contract) is shown in figure 54.
While the trend of coverage has very much to do with labour legislation, the changes in the labour market and the occupational transition from the industrial to the service sector, union density reflects the feeling of workers with respect to the effectiveness and the social role of the unions. What we can see is an impressive increase during the 60s (not in the graph) and the 70s, and a slow decline afterwards. In the last decade, this decline seems to have stopped, but one has to consider the increasing weight of retired workers, who nowadays make about 50% of union associates. The reason for this is a kind of informal Italian “Ghent” system: when workers retire, unions provide them with assistance in the process of receiving their retirement grants from the notoriously slow and ineffective Italian public administration. But in order to receive this service, retired individuals have to become, or to remain, union members. So the relatively high and persistent Italian rate of union density is not a measure of their workplace strength, who became relatively low outside the public sector and the biggest private firms, but of their capacity to substitute themselves to an efficient public administration. Another example of the typically Italian complementarity of a weak government and strong interest groups that was described in the Introduction to this report.

3.3 Trust in institutions and in others

Trust in institutions

Despite the relatively high voting turnout, but in line with the general institutional pattern we repeatedly recalled, Italians’ trust in institutions is very low. Figure 55 shows Italians’ trust in national government. Apart from a very low peak in march 2008 due to an incidental situation (the end of a
very tough electoral campaign after two years of weak coalition government), the share of people trusting the government fluctuates between 25% and 30%, a bit lower than the EU average, that was never lower than 30% in the last decade. A similar situation takes place with respect to trust in the Parliament. The trend is similar to that of trust in government (figure 56), without significant differences with the rest of EU between 2003 and 2007 and a decline afterward. Trust in the legal system (figure 57) is less volatile than that in Parliament and in government, but the level is even lower when compared to EU countries. When referring to EU averages, one has also to consider that it includes former Communist countries, where government and political institutions in general are heavily discredited because of the totalitarian past of the countries. If we would compare Italy to other Western European countries the gap would be significantly higher.

Figure 53: Trust in national government.

Source: Eurobarometer
Figure 54: Trust in national Parliament.

Source: Eurobarometer

Figure 55: Trust in national legal system.

Source: Eurobarometer

Trust in others

Italians’ trust in other people is very similar to their trust in institutions. It is slightly below the mean of other European countries (around 34%) and fairly stable over time, apart from a notable increase between 1981-1984 and 1990-1993 (which we are not able to substantively explain). Also in this case, in comparative perspective, Italy (as other Mediterranean countries) ranks at the median of the
sample of European countries included in EVS, well below Nordic and Central European countries but above almost all Eastern countries.

**Figure 56: Trust in other.**

![Graph showing trust in other over time for Italy, EU average, and Gini.]

Source: EVS (Waves 1-4)

**Figure 57: Trust in other, by country.**

![Bar chart showing trust in other for various countries.]

Source: EVS (Waves 1-4)
3.4 Political values and legitimacy

One of the political issues most correlated to inequality is the support for extreme political parties. Of course, extremism is not always bad, and the level of social threat associated to the presence of extremism is very much dependent on the political framework, on the level of electoral competition, on the quantity and quality of political parties and so on. For these reasons, and in particular because of the variability of the political framework, we measure extremism using a self-reported variable. Data from Itanes (Italian national election studies) include comparable measures of self-reported positioning on the right-left scale that go back to 1972. In principle, since the question does not refer to the actual electoral behaviour, it should be independent of time-varying political framework characteristics. In reality, data suffer from the shift to the “second republic” in early 90s, when the political system changed dramatically after 50 years of substantial stability. In that period, also the concept of “right” and “left” changed, and individual perception of extremism was influenced as well.

Figure 57 shows the aggregate share of individuals who self-reported to be at the extreme right or the extreme left. For obvious historical reasons, the extreme right has been very low in Italy, up to the end of the “first republic”, in 1992-1994. After the collapse of the old political system, the share of individuals self-reporting to be right extremist doubled from about 5% to about 10% and remained stable afterward. Membership to the extreme left is almost symmetric. The strength of Communist Party in Italy from the 60s to 80s and the persistence of a sizeable Communist Party also after the USSR collapse induced a higher identification in extreme left positions. After having won the election in 1996, the center-left political coalition broke down in two separate entities: while the bigger assumed moderate positions, the other – more extreme – lost support, as it severely damaged the cohesion and the effectiveness of the government. Party identification is likely the reason why many individuals moved from extreme left to moderate left, following their party and causing the decline of extreme leftism. Indeed, after 1996 there is a strong correlation between the share of votes for the former Communist Party and the share of individuals declaring to be left extremist.

\[ \text{We define “extreme” the 20\% tails of the scale, that is left if individual reports 1-2 over a 1-10 scale, or 1-20 over a 1-100 scale, or 1 over a 1-5 scale, depending on the wave, and right if reported position is 9-10, 81-100 or 5, respectively.} \]
In order to analyse the composition of individuals belonging to extreme political positions, we choose to disaggregate them according to two dimensions: gender (figure 61) and education (figure 62). With respect to the first, there seems not to be a great difference. Women seem to be, in general, more volatile than men, but trends and shares are substantially equivalent. The only significant gap is found for extreme left in the earliest years we observe. This gap is probably due to the different gender composition of factory workers, who were of course more exposed to communist propaganda.

On the other side, education seems to be more correlated to extremism: the share of low-educated individuals belonging to extreme positions, both left and right, is always higher than the share of high-educated ones, apart from the case of left extremism in 1975, some years after the great wave of leftist student mobilization of 1968. However, left and right extremisms experience very different trends: the gap for left extremism was high in the 60s and close to zero in the 2000s, while in the case of the right extremism, the gap was zero in the 60s and increased during the period we observe, becoming significant after 1990 (with the exception of 2001).
Figure 59: Extreme positions, by gender.

Source: ITANES
Partly related to extreme political position is the support for European Union. Figure 60 plots the shares of people whose opinion on the membership to EU is positive or negative in Italy and in the EU on average. Italians had a better opinion of their country membership than other European citizens until the early 2000s, then the gap closed and the share has remained stable around 50%, in line to EU average. Symmetric trends are obviously found for individuals who think EU membership is bad, meaning that the residual category of indifferent individual is sizeable (around 30%) but stable over time.
Another significant attitude often related to extremism (mostly on the right) is racism. Intolerance towards migrants is a rough indicator for the level of racism and xenophobia in a country (even if each national specific situation should be analysed very carefully). For the purpose of this work, we take as an index of intolerance the share of people who answer positively when asked whether they do not like immigrants or foreign workers as neighbours. Data collected by European Values Study show a significantly increasing trend for Italy, and a closing gap with respect to the average of other countries. Of course, such trends have very much to do with the economic cycle, the perception of crime and safety, and other issues, but the increasing trend of intolerance is clear in the data. It is also clearly associated to that of rightist extremism, but the causal direction is hard to tell. However, given that the increase in intolerance somehow predates that of rightist extremism, we would comment the former has surely contributed to the rise of the latter.
### 3.5 Values about social policy and welfare state

As it was documented in the introduction to this report, income inequality in Italy is comparatively high. The Gini index for inequality is higher than the European average, and also higher than in most OECD countries. Among the possible consequences of a large level of inequality, an interesting issue is its effect on people’s propensity to redistribution of income. In principle, the higher income inequality, the more polarised opinions on redistribution should be, since with higher inequality the rich have to pay more to sustain redistribution to poor, who in turn would benefit more from it. Figure 65 shows the share of people thinking that “income should be made more equal”, disaggregated by their level of income.

**Figure 63: Share of individuals self-positioned as 1-3 on a 1-10 scale between the extreme statements: “Incomes should be made more equal” (values 1-3) and “Incomes should be made higher” (8-10).**

At a first glance, a counter-intuitive result emerges: even if inequality in 1990 was lower than in 1999 and 2008, support for redistribution from poor people was higher and support from rich people lower than in the following decade. Moreover, this decline goes in the opposite direction with respect to the EVS average, where an increase in support for redistribution among all groups of income can be observed. As a consequence of this, support for redistribution in Italy is in general lower than the European average in 2008, while it used to be higher in 1990. To express it more clearly: while all over Europe support for redistribution grows with growing inequality, in Italy public opinion went the opposite way. We would explain this result by means of the weak level of trust that contemporary Italians feel towards the state. In particular, as we observed above, 2008 was an all-
time low from this point of view, because of the contingent situation (a very partisan electoral campaign after two ineffective governments expressed by both sides of the political spectrum).

Responsibility for individual needs is another relevant topic related to income inequality. Figure 63 shows the share of people who think that the State should play a relevant role in meeting people’s need, opposite to individual responsibility. Differences from the previous topic are mainly two: on the one side, the shares of people agreeing on State responsibility are more stable over time and slightly declining, in line with EVS average. On the other, opposite to what happens for redistribution, these shares are higher than EVS average, suggesting that Italians are generally averse to redistribution of income from rich to poor, but believe that the State should care for the needs of very poor people. Of course, more detailed investigations should be needed to assess the relationship among inequality, propensity to redistribution and support to poor. The contribution by Scervini and Segatti (2011), for instance, suggests that there is a strong negative relationship between individual income and support for redistribution, but also a (weaker) positive relationship between inequality and support for redistribution in Italy.

Figure 64: Share of individuals who self-positioned as 8-10 on a 1-10 scale between the extreme statements: “The state should take more responsibility to ensure that everyone is provided for” (values 8-10) and “Individuals should take more responsibility for providing for themselves” (1-3).

![Graph showing share of individuals who self-positioned as 8-10 on a 1-10 scale between the extreme statements.](image)

Source: EVS

The most unexpected result shown in the previous part of the paragraph is the increased share of rich people supporting redistribution (see figure 66). Why should rich support redistribution? In addition, why should they do it when inequality is greater and, therefore, redistribution becomes more expensive, particularly for them? A possible answer can be found in figure 67, where it is
possible to see the decline of the share of rich thinking that poor are such because they are lazy or less willing than others. The decline is quantitatively very relevant (the share halved from about 30% to about 16%) and limited to high-income earners. Interestingly, such a decline did not take place among poor and medium-income people, so that the share thinking that poor are lazy is higher among the poor than among the rich. This is a rare case of the victims blaming themselves. What are the reasons why the rich think that the poor are poor? From 1990 to 1999 the answer “Unlucky” more than doubled from 6% to 14%, while from 1999 to 2008 “Injustice in society” increased from 39% to 45%. The perspective of rich Italians with respect to poor seem to have changed significantly in the last two decades, while the same did not happen among low- and medium-income individuals. Two reasons can be supposed to contribute to this change: first, the educational composition of the rich has changed, with an increasing share of highly-paid professionals and managers, and typically education makes people more critical towards inequality. The second could be the dissolution of the Communist party: despite its actual political positions having become, over time, much more closer to those of a “normal” Western social-democratic party than to those of its Bolshevik origins, the party’s official ideology and symbols were still, up to the early 90, quite similar to the original ones, making the political debate concerning redistribution much more symbolically and ideologically charged.

Figure 65: Share of people agreeing that poor are lazy.
3.6 Conclusions: appraisal of the interdependence and the ‘national story’ of inequality drivers and their cultural and political impacts

The evidence we presented concerning the cultural and political impact of inequality is in general consistent with our interpretation of its social impact, as discussed in the previous section. We suggested there that the weakness of the state left Italian individuals and families alone in trying to absorb the employment shocks, which are the main source of income and worked hours variability. Moreover, being embedded in relatively weak social ties (as witnessed by comparative low levels of social capital), they feel abandoned by their governors, and therefore lose interest in policy. This is particularly clear in the young generation. Not surprisingly, poor individuals seem to lose interest and hope in the redistributive role of the state, while educated/rich individual exhibit the opposite behaviour. We have seen how changes in the political system contributed to this feeling of helplessness: in particular, the weakening of political parties and of their partisan ideology resulted in a decrease of the social and cultural support available to individuals. Not surprisingly, racism and intolerance are on the rise, with right-wing extremism diffusing, and thereby reinforcing the very same feelings it grew from.

Of course, persistently high income inequality does not help in solving the problem, because it exacerbates social distances (thus making more difficult the production of social capital), as well as pushing people back within their homes. Moreover, we have seen that a vicious circle is operating: the economically worst-off people, who would benefit more from state redistribution promoted by the political system, are the very same ones who participate less to the political system. This is a phenomenon widely diffused in contemporary democracies, especially in the US, where the level of electoral participation is particularly low. However, in the Italian case the vicious circle appears to be increasingly important, because of the historical weakness of the state, augmented by the loss of legitimacy of the whole political system, following the collapse of the traditional parties in the early 1990s. The parties that have substituted the old ones have been not able, at least up to now, to stop the decline of interest and trust in politics on the part of the Italian public, especially from the lower classes and the social groups more at risk of poverty.

Some hope emerges by the observed correlation between educational attainment and civic participation: since education is expanding and educational inequality is declining, as was documented above, this may partially counteract any further detachment from social participation. We now move to another key topic of the patterns of inequality in Italy, namely the impact of policies aimed at the reduction of inequality.
4. Effectiveness of policies in combating inequality

4.1 Introduction

Italy spends approximately as much as other European countries for social benefits, but the internal composition of this expenditure is biased against the young generation. Expenditure like unemployment benefits and housing appears compressed to leave room for expenditure of the elderly, through the pension system. On the revenue side, apart from the highest incidence on GDP, the tax burden is unequally distributed (leaving large room to indirect taxation).

With respect to fighting inequality and social exclusion, the main problem is represented by the lack of measures against poverty regulated at the national level. The existence of regional programs cancels any redistributive aim of these initiatives. Benefits in kind are still a minimum part of the public support to the needy, while pensions remain the main channel of monetary transfer.

Labour market institutions should be inequality reducing, but the decline in union membership and coverage, couple with the absence of a minimum wage scheme raise doubts about the effective ability to prevent further increases in earning inequality.

Finally, schooling institutions should reduce educational inequality, but along three dimensions (pre-primary schooling, secondary school stratification and lifelong learning) there is still much to be accomplished.

4.2 Social expenditure

Social expenditure data are available through the OECD SOCX database.21 A description of what is considered social expenditure in the database is provided in Adema et al. (2011):

“The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer. Since only benefits provided by institutions are included in the social expenditure definition, transfers between households – albeit of a social nature, are not in the social domain. Social benefits

21 http://stats.oecd.org/
include cash benefits (e.g., pensions, income support during maternity leave and social assistance payments), social services (e.g., childcare, care for the elderly and disabled) and tax breaks with a social purpose (e.g., tax expenditures towards families with children, or favourable tax treatment of contributions to private health plans). There are two main criteria which have to be simultaneously satisfied for an expenditure item to be classified as social. First, the benefits have to be intended to address one or more social purposes. Second, programmes regulating the provision of benefits have to involve either a) inter-personal redistribution, or b) compulsory participation.” (p.90)

Figure 66: Public total social expenditure

Note: The figure reports public total social expenditure (all types, all branches) as percentage on nominal GDP. Source: OECD SOCX database.

Figure 67: Public total social expenditure by branch

Note: The figure reports public total social expenditure (all types) by branch as percentage on nominal GDP. Housing and Other social policy areas always account for 0% of GDP. Source: OECD SOCX database.
The figure 68 shows for Italy an increasing trend of public total social expenditure, especially since the second half of the 90s. Over the about thirty years spanned by the data, social expenditure rose by 7 percent points of GDP, 5 of which are accounted for by the increase since the mid-90s. Compared to other comparable countries of the Euro area, in terms of incidence of social expenditure on GDP Italy is consistently lower than France, a country which notoriously spends more generously on social issues, and Germany, except for the last year reported in which there is some convergence with this country, while it spends relatively more than Spain.

Given the very heterogeneous expenditures that are comprised under the common label “social expenditures”, it may be important to report detailed data by branch to highlight which are the main beneficiaries of these expenditures and what types of expenditure are rising or declining over time.

Figure 68 clearly shows that the bulk of Italian social expenditure concerns pensions. “Old age” accounts during the period also for the rising dynamic of social expenditures. The increasing burden imposed by old-age pensions, and the unsustainability of social security system prevailing in the 80s in the long term, motivated several reforms that were introduced in Italy by governments since the 90s. The Amato’s reform (D.Lgs. 30th December 1992, n.503), which among other things, increased the retirement age from 60 to 65 for men and from 55 to 60 for women, the years of contribution for the seniority pension (“pensione di anzianita’) from 15 to 20 years and introduced private complementary and supplementary pension forms. The Dini’s reform (Law n. 335, 8th August 1995) converted the Italian pension system from a retribution-related system (pension computed on the basis of the last 10 years wages) to a contributions-related form. The Prodi’s reform (Law n. 449, 27th December 1997) increased the requirements for the “seniority pension” and the amount of contributions for independent workers. Various interventions were made since the 1997, mainly aimed at ensuring the sustainability of the pension system, till the recent Decreto Legge n. 201/2011 (Decreto “Salva Italia” --- “Decree to save Italy”) that includes the Fornero’s reform, which among other things further increased the retirement age from 60 to 62 for women and from 65 to 66 for men.

The second most important branch of public social expenditure is “Health”. However, health expenditure has a much more stable dynamic, rising during the period by less than one percentage point.

Figure 68 also shows a substantial lack of intergenerational equity in Italian public social expenditures. Indeed, expenditures that are likely to benefit younger people and families --- whose job security was sensibly reduced by the recent labour market reforms introduced to increase the flexibility of the Italian labour market (Law 24th June 1997, n. 196, the so-called “Pacchetto Treu”
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and Law 14th February 2003, n. 30) --- are very low and stable. Branches such as family, unemployment and active labour market policies each account for less than 2% of GDP. Unemployment benefits tend in Italy to protect more those who lost a job than first-time job seekers, and youth unemployment rates in Southern Italy are among the highest in Europe, both factors which means that there will be pressing needs in the future for adequate forms of income support for young unemployed people and families.

**Figure 68: Public total social expenditure by type**

![Chart showing public total social expenditure by type](chart.png)

Note: The figure reports public total social expenditure by type (all branches) as percentage on nominal GDP. Source: OECD SOCX database.

Figure 70 reports the detail of public social expenditure by type. Both cash benefits and benefits in kind are on the rise since the mid-90s, although the first type of expenditure records a more sustained dynamic during the period, rising by 4.7 percent of GDP.

In recent years, many governments in the Euro area are making attempts to contain public expenditures, among which social expenditure. However, private bodies may partly compensate for such reductions. In the OECD SOCX database the distinction between public and private social protection is made on the basis of who controls the relevant financial flows; public institutions or private bodies. Private expenditures can be further distinguished into:

“Mandatory private social expenditure: social support stipulated by legislation but operated through the private sector, e.g., direct sickness payments by employers to their absent employees as legislated by public authorities, or benefits accruing from mandatory contributions to private insurance funds.
Voluntary private social expenditure: benefits accruing from privately operated programmes that involve the redistribution of resources across households and include benefits provided by NGOs, and benefit accruing from tax advantaged individual plans and collective (often employment-related) support arrangements, such as for example, pensions, childcare support, and, in the United States, employment related health plans.” (p. 93-94, Adema et al., 2011).

Figure 71 reports mandatory private and voluntary private social expenditures. Except for a jump in mandatory private expenditure during the first half of the 90s (mainly related to the introduction of contributions to private retirement plans in correspondence with the Amato’s pension reform), private expenditure does not show an overall increasing trend during the period. Hence, it is possible that the cuts social expenditures introduced to contain public deficits may not be compensated by an increasing trend in the private sector.

Figure 69: Private total social expenditure by source of expenditure

![Graph showing private total social expenditure by source of expenditure from 1980 to 2007.]

Note: The figure reports private total social expenditure (all types, all branches) by source as percentage on nominal GDP. For the “voluntary private” category data are available since 1990. Source: OECD SOEX database.

4.3 Taxation

Italy is one of the countries in the EU with the highest level of taxation. Its tax burden increased significantly since the currency and fiscal crisis that hit it in 1992, as a key component of the more general social and political crisis whose importance we have repeatedly recalled in this report. The longest time series for Italian total tax receipts as a percentage of GDP is provided by Eurostat, starting in 1980, and shows that tax receipts increased from 28.7% of 1980 to 31.5% of 1983, to decrease again to 28.3% in 1987 and then increase to the maximum of 33% in 1992. In 1995 the total
tax burden was equal to 24.4%, which was just below the EU15 and EU27 averages (we have no information on the EU averages before 1995). It quickly increased by 5 percentage points, as opposed to the EU average that increased by less than three percentage points in the same period. Since 1998, total tax burden remained at about 2 percentage points higher than the EU averages (see Figure 7). The amount of taxes and social contributions levied in each main function of the economy (consumption, labour and capital) is shown in Table 18, showing that, if social contributions are also taken into account, labour income is taxed much more (around 20% of GDP and 50% of total tax and social contribution revenues) than consumption and capital (each about 10% of GDP and about 25% of total revenues).

Table 19 provides a decomposition of tax receipts by main tax components. The decomposition shows that, out of about 13% of GDP in taxes on production and imports, about half of it is due to VAT and excise duties and consumption taxes account for 2-3% of GDP. This table also shows that social security contributions are large and amount to about 12-14% of GDP in the last decade. Figure Fout! Verwijzingsbron niet gevonden. shows a marked increase of indirect taxation between 1997 and 1998, as opposed to direct taxation. However it should be noticed that this was due to the fact that health care funding was moved from direct taxation to indirect taxation with the introduction of a new tax (IRAP, Imposta sui redditi delle attività produttive).

Table 20 shows implicit tax rates, which aim to show the tax rate implicitly levied on each main economic function. They are computed as the ratio of total tax revenues to a proxy of the potential tax base for each economic function. It shows that implicit tax rates on consumption are lower than EU27 averages but those on labour have been 2 to over 6 percentage points higher in the last fifteen years.

Various authors have estimated the progressivity and redistribution of personal income taxation (PIT). Among many others, Fiorio and Santoro (2011) analyse the role of PIT reforms since 1998, finding a modest impact changing the redistribution and the progressivity indices. They also studied the role of tax evasion in Italy, which is estimated over 25% of total tax revenues a very large share compared to EU27 average, and concluded that it could significantly alter the distribution of incomes, if only seriously tackled by policy makers. Tax evasion is much stronger among self-employed workers such as entrepreneurs, professionals, owners of small shops and businesses: this difference may have played a part in the increase of inequality among self-employed workers, that we have seen, in the first section, to have been significantly higher than that among dependent workers.
Figure 70: Total tax receipts as GDP percentage, Italy vs. EU average

Source: Eurostat

Table 18: Decomposition of tax receipts by main tax components

<table>
<thead>
<tr>
<th></th>
<th>Percentage of GDP</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Percentage of total taxation</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on consumption</td>
<td>10.4  10.9  10.0  9.8</td>
<td>Italy</td>
<td></td>
<td></td>
<td>25.9  26.2  24.7  22.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on labour - total</td>
<td>18.2  19.9  20.4  22.1</td>
<td>Italy</td>
<td></td>
<td></td>
<td>45.5  47.6  50.5  51.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on capital - total</td>
<td>11.4  10.9  10.0  11.2</td>
<td>Italy</td>
<td></td>
<td></td>
<td>28.5  26.2  24.8  26.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Eurostat

Table 19: Decomposition of tax receipts by main tax components

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on production and imports</td>
<td>13.4</td>
<td>11.8</td>
<td>13.2</td>
<td>10.7</td>
<td>14.7</td>
<td>14.2</td>
<td>13.6</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added type taxes (VAT)</td>
<td>6.7</td>
<td>6.1</td>
<td>6.3</td>
<td>4.6</td>
<td>6.2</td>
<td>5.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Taxes on products, except VAT and import taxes</td>
<td>6.2</td>
<td>5.1</td>
<td>6.1</td>
<td>5.0</td>
<td>5.1</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Excise duties and consumption taxes</td>
<td>3.0</td>
<td>2.5</td>
<td>3.5</td>
<td>2.8</td>
<td>2.6</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Stamp taxes</td>
<td>2.6</td>
<td>2.0</td>
<td>1.9</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Current taxes on income, wealth, etc.</td>
<td>15.1</td>
<td>16.3</td>
<td>17.6</td>
<td>13.1</td>
<td>14.4</td>
<td>13.3</td>
<td>14.7</td>
</tr>
<tr>
<td>Total tax receipts</td>
<td>28.7</td>
<td>28.2</td>
<td>30.9</td>
<td>24.4</td>
<td>29.2</td>
<td>27.6</td>
<td>29.1</td>
</tr>
<tr>
<td>Actual social contributions</td>
<td>20.3</td>
<td>16.0</td>
<td>16.0</td>
<td>11.5</td>
<td>12.1</td>
<td>12.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Total receipts from taxes and social contributions</td>
<td>49.0</td>
<td>44.2</td>
<td>46.9</td>
<td>35.9</td>
<td>41.3</td>
<td>40.2</td>
<td>43.0</td>
</tr>
</tbody>
</table>

Source: Eurostat
GINI Country Report *Italy*

### Figure 71: Trends of direct, indirect taxation and social contributions, as a percentage of GDP.

![Trends of direct, indirect taxation and social contributions](chart.png)

Source: Eurostat 2011

### Table 20: Implicit tax rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27 countries)</td>
<td>19.9</td>
<td>19.9</td>
<td>19.6</td>
<td>18.9</td>
</tr>
<tr>
<td>Italy</td>
<td>17.4</td>
<td>17.9</td>
<td>16.7</td>
<td>16.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (27 countries)</td>
<td>37</td>
<td>37</td>
<td>36.2</td>
<td>36</td>
</tr>
<tr>
<td>Italy</td>
<td>38.2</td>
<td>42.2</td>
<td>41.3</td>
<td>42.6</td>
</tr>
</tbody>
</table>

Source: Eurostat

### 4.4 Benefits and welfare

Italy does not have measures against poverty defined and regulated at the national level (Kazepov 2011): those who are in a situation of economic distress are not covered by generalized national measures of social protection, but only by local-level ones, with a strong variation among territories. The only national program is for the elder, and will be described below. Between 1999 and 2000 a center-left government attempted to introduce a universal income support program for those under a giving income level, modelled on the French “revenu minin d’insertion”: besides income support, the program provided assistance in job search, re-training and other active labour market policies. The program was experimented in a selection of municipalities, but unfortunately there has been no systematic evaluation of its outcomes. After the end of the experimentation, the program was due to be generalized nationwide, but it was not, because of a change of government: the center-right government that followed, guided by entrepreneur Silvio Berlusconi, was not very interested in social protection schemes supporting the income of the poor. Afterwards, a minority of regions have introduced programs of minimum income somehow modelled on the national experiment, but the
amount of regional transfers are typically lower and, as in traditional passive labour market policies, money transfers are more important than active measures such as individual empowerment, vocational training and labour market assistance.

From the point of view of social and economic inequality, this means that social policies in Italy, like in other Southern European countries, do not have a strong redistributive content, nor among households neither among geographical areas. The latter feature is quite relevant for Italy, where poverty and low incomes are more geographically concentrated than elsewhere. As it is typical of the Mediterranean version of the “Conservative” welfare regime (Esping-Andersen 2000; Ferrera 2006), the core institution providing care to those in need is the family: most of the assistance to children and the elder is carried out by unpaid female members of the households. This setting is in turn related to the labour market regime: female employment is comparatively low, and there is a strong employment protection for the adult male “breadwinner”. In fact, Conservative welfare regimes are often also defined as “corporative”, because of the fragmentation of assistance measures across different social groups. It has to be added that Italian women from the recent cohorts, especially when they are educated, tend to avoid leaving the labour market in order to care for the family. Their work is then typically substituted with that of migrant females, coming from Latin America or Eastern Europe.

Table 16: Social assistance in typologically selected countries, PPP, 2008-9

<table>
<thead>
<tr>
<th></th>
<th>Sweden</th>
<th>UK</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult</td>
<td>756</td>
<td>494</td>
<td>389</td>
<td>190</td>
<td></td>
<td></td>
</tr>
<tr>
<td>social assistance</td>
<td>365</td>
<td>494</td>
<td>146</td>
<td>190</td>
<td></td>
<td></td>
</tr>
<tr>
<td>housing allowance</td>
<td>391</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mother alone with 2 children</td>
<td>1,054</td>
<td>1,204</td>
<td>924</td>
<td>1,327</td>
<td>499</td>
<td></td>
</tr>
<tr>
<td>social assistance</td>
<td>482</td>
<td>321</td>
<td>423</td>
<td>660</td>
<td>252</td>
<td></td>
</tr>
<tr>
<td>child benefit</td>
<td>93</td>
<td>368</td>
<td>154</td>
<td>288</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>housing allowance</td>
<td>479</td>
<td>515</td>
<td>347</td>
<td>379</td>
<td>209</td>
<td></td>
</tr>
<tr>
<td>regional variation</td>
<td>low</td>
<td>very low</td>
<td>low</td>
<td>high</td>
<td>middle</td>
<td></td>
</tr>
<tr>
<td>Length</td>
<td>as long as need persists</td>
<td>limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kazepov (2011), compiled with data from the Rescaling project and from van Mechelen et al., 2011.

Table 21 shows the amount of social assistance transfer for two typical households in need, a single adult (aged less than 65, so that pensions are not counted in) and a mother with two children, for a
set of countries representing the three welfare state regimes and the internal sub-types of the Conservative regime. It can be seen that the level of assistance in Italy is at its lowest, in comparison to the other big Western European countries and also, a fortiori, with the Scandinavian ones, here represented by Sweden. This difference becomes even wider if the length of the support is taken into account. The exception, as usual, comes from the countries from the former Soviet bloc, here represented by Poland, where social assistance is almost non-existent. Moreover, Italy shows the strongest internal variation. Instead of weakening the North-South divide, public policies end up with reinforcing it.

As mentioned above, the only exception to this situation, extreme even among Southern European countries, is a national program to support the income of individuals aged more than 65 who do not have an occupational pension or have one that comes under a given threshold. This program, called pensione sociale up to 1995 and assegno sociale thereafter, is managed by the national pension fund (INPS). Figure 73 shows its pattern over time, together with that of total social assistance transfer to a working-age couple with 2 children. It can be seen that transfer towards the elder are more generous than those towards the adults: in 2008, the former were about 41% of an average wage, the latter about 34%. Concerning the trend, the figure shows it has increased from the 70s to the early 90s, and then there is a series of fluctuations without a clear trend. In the last few years, however, the trend has been a decreasing one.

Figure 72: Trend of social transfers, as a % of average wage

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22 The figure is based on elaborations of data taken from van Mechelen et al. (2011). Data are weighted by PPP, with 2000=100.
Finally, table 22 gives an overview of the overall composition of the expenditure for social assistance transfers and its trend over two decades, distinguishing the main types of programs.

Table 22: Composition of social assistance expenditure (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplement to low pensions</td>
<td>62.2</td>
<td>49.3</td>
<td>46.4</td>
<td>46.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Family allowances</td>
<td>12.0</td>
<td>13.6</td>
<td>8.7</td>
<td>11.7</td>
<td>13.1</td>
</tr>
<tr>
<td>Social pensions/social cheques</td>
<td>4.8</td>
<td>5.6</td>
<td>5.5</td>
<td>5.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Pensions to the civilian disabled</td>
<td>8.5</td>
<td>17.2</td>
<td>23.0</td>
<td>20.3</td>
<td>26.7</td>
</tr>
<tr>
<td>War pensions</td>
<td>4.2</td>
<td>4.4</td>
<td>4.3</td>
<td>3.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Pensions to the blind and the deaf</td>
<td>1.6</td>
<td>2.2</td>
<td>2.7</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Other measures</td>
<td>1.4</td>
<td>1.1</td>
<td>1.4</td>
<td>1.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Social transfers in kind</td>
<td>5.4</td>
<td>6.6</td>
<td>7.9</td>
<td>8.8</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Source: Kazepov (2011)

While the system is still based to monetary transfers, transfers in kind (that is, the provision of services) have increased from about 5% to almost 15%. This is the direction of change proposed by those who support a model of social assistance based on the provision of universal services, as it is in the Scandinavian countries. In particular, an increase of the provision of caring services for children under school age (kindergarten and pre-primary school) is often invoked as a way to stimulate women’s participation to the labour market, that is quite low in comparative terms, especially in the South, and to stop the decline of fertility started in the 70s.

However, pensions still constitute most of the social transfers in Italy. Their internal composition has changed: the weight of the integration to the low pensions have decreased, because they cater especially to people who never entered the various occupational pension schemes (in particular poor agricultural workers and workers from the informal urban economy, both occupational categories who have almost disappeared, at least among Italian natives). Family allowances are more or less stable, while pensions to the disabled have notably increased. It has to be noted that the latter include transfers toward the familiars of the disabled person (called *indennità di accompagnamento*, accompaniment allowance). This program is managed at the local level, and is often criticized as its management involves a lot of discretion on the part of its managers, who are typically controlled by the local government. This makes this kind of pensions a frequent object of political exchange and an important resource in the building of clienteles on the part of local politicians (Madama and Ferrera 2006), especially in the poorest areas.
4.5 Services: a shift towards social investment?

**Active labour market measures**

Historically, Italy has always presented very low expenditure on active labour market policies compared to other European countries, around 0.5% of GDP, half of other countries such as France and Germany (table 24). The definition of active policy, however, is quite contested, because many of the policies that are considered “passive” contain some form of activation, in the sense of being contingent on labour market search. However, this is not the case of Italy, where unemployment benefits are not conditional on job search. Also the definition of active policy is subject to some caveat, in as much as it contains policies like public job creation.

Most Italian expenditure in labour market policy is allocated to passive policies (early pensions and unemployment benefits). Historically, they constitute around 60% of total expenditure on labour market policies (table 23), but during the crisis this share went up to 78%, as payments to the short time work program soared. The Cassa Integrazione Guadagni is similar to the German Kurzarbeit but usually – unlike the German case – puts workers on total suspension from work (“zero ore”, zero hours), while in Germany the system more often implies a partial suspension. But this makes a big difference: while the German system allows firms to increase their internal flexibility, incentivizing them to redistribute tasks and workloads among employees, the Italian system increases external flexibility. In fact, it incentivates firms to substitute older dependent workers (with standard employment contracts), who exit via Cassa Integrazione or early pension schemes (“prepensionamenti”), with younger workers hired with the new “atypical” fixed-term contracts. But in this way the Italian policy, besides reducing labour costs to the firm, also weaken the relation between firm and workers and thus the propensity of both parts to invest in human capital, with negative outcomes on the propensity to innovate. The very different performance of Italian and German firms observed during the last years is directly related to the different labour market reforms experienced by the two countries.

Only 40% of total labour market policies goes to active policies, such as incentives to self-employment, incentives to work for disabled people, public job creation, regional tax breaks, incentives to employment, to transformation of temporary in open-ended contracts, to hiring, training and contracts that are contingent on training. During the crisis years of 2008 and 2009 this number has correspondingly fallen to 21% of total labour market policy expenditure. Traditionally, the highest expenditure in active labour market policies goes to incentives to new hiring and to public contributions to training contracts.
Table 23: Composition of labour market policies expenditure (%)

<table>
<thead>
<tr>
<th>Classification</th>
<th>LMP</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Training</td>
<td>3.9</td>
<td>3.9</td>
<td>4.6</td>
<td>3.5</td>
<td>1.7</td>
</tr>
<tr>
<td>2</td>
<td>training contracts</td>
<td>13.3</td>
<td>11.9</td>
<td>12.9</td>
<td>12.6</td>
<td>8.3</td>
</tr>
<tr>
<td>4</td>
<td>incentives to new hires</td>
<td>14.7</td>
<td>14.3</td>
<td>14.0</td>
<td>12.6</td>
<td>7.5</td>
</tr>
<tr>
<td>4</td>
<td>incentives to transformation of temp into open ended contracts</td>
<td>3.5</td>
<td>3.7</td>
<td>2.9</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>4</td>
<td>incentives to employment</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td>regional tax breaks</td>
<td>0.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>5</td>
<td>incentives to disabled</td>
<td>0.6</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>6</td>
<td>public job creation</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>7</td>
<td>incentives to self-employment</td>
<td>4.4</td>
<td>3.9</td>
<td>2.8</td>
<td>2.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Total active policies 2-7</td>
<td>41.5</td>
<td>39.9</td>
<td>39.0</td>
<td>34.7</td>
<td>21.3</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>unemployment benefits and CIG</td>
<td>56.8</td>
<td>58.7</td>
<td>59.7</td>
<td>64.4</td>
<td>78.1</td>
</tr>
<tr>
<td>9</td>
<td>early pensions</td>
<td>1.7</td>
<td>2.4</td>
<td>1.3</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Total passive policies 8-9</td>
<td>58.5</td>
<td>61.1</td>
<td>61.0</td>
<td>65.3</td>
<td>78.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: elaborations of Ministero del Lavoro e delle Politiche Sociali (Segr. Gen. – Div. V) and INPS, Ministero dell’Economia e delle Finanze, Ministero dello Sviluppo Economico, ISFOL, Invitalia

Table 24: Public expenditure on active labour market policies (% of GDP)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Austria</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
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Source: Labour market programmes: Expenditure and participants, OECD Employment and Labour Market Statistics

### 4.6 Minimum wages and collective labour agreements

Figures 74 and 75 show union density and union coverage in Italy. As we have already seen above, similarly to many other countries union density and union coverage declined, especially in the private sector. While union density is still relatively high because of the informal Italian “Ghent system” concerning old-age pensions, union coverage is still very high because collective contracts have in principle *erga omnes* validity. Figure 76 shows the high (and stable over time) level of coordination of collective contracts. So far Italy is a country with little decentralization of contracts and only little more than 15% of firms (especially large firms) have a firm-level bargaining system. It is unclear whether these institutions had a direct impact on inequality. Given that, as we have seen in the first section of this report, inequality in Italy has increased in the crises of the early 90s, but has been stable since then, it is likely that institutions have had a minor effect on the trend in inequality but may have had an important effect in this discontinuity. In that year the so-called Scala Mobile, the entire system of wage indexation rules was reformed.
Figure 73: The evolution of union density over time in Italy

Source: OECD employment outlook

Figure 74: The evolution of union coverage over time in Italy

Italy does not have a legal minimum wage, but has a system of collective bargaining agreements based on two levels: the first or centralized level where firms and trade unions define wage and employment levels and general working conditions and the second or firm-level bargaining where the firm and the local unions bargain over the rents produced at establishment (or firm) level. The Italian Institute of Statistics has been producing an index of contractual wages, which keeps information of the effects of national contracts, while leaving outside the wage drift attributable to local bargaining at the firm-level and/or unilateral concessions. In Figure 75 we plot contractual and actual wages, showing that they clearly move together. This was not the case during the 90s, which were characterized, on the contrary, by a slowdown of the contractual wage vis-à-vis the average wage paid by firms. It is difficult to disentangle whether the collective bargaining has contributed to keeping the evolution of wage inequality in check in Italy. Indeed, Checchi and Pagani (2004) express doubts with respect to the role of national bargaining, which could actually appear to have been inequality enhancing instead of inequality reducing at least for the period under their consideration (before year 2000).
4.7 Educational Institutions

Among the policies that may help combating and reducing inequalities, the design of the educational system certainly plays a prominent role. In fact, educational institutions affect substantially the extent of educational inequality generated by the system, which is in turn closely related to income inequalities (see for example Checchi, 2001). Therefore, any policy that contributes to lessen educational inequality can be a very important tool to reduce income inequality as well. Moreover, opposite to ex post instruments described in the previous sections, equality of education is an ex-ante policy (operating before the market) that can be particularly effective, since it can reduce inequality without generating market inefficiencies.

There is an extensive literature on the impact of institutional characteristics of school systems ("school design") on educational inequality, and it is beyond the scope of this report to review this evidence (for comprehensive surveys see for example Woessmann, 2008, and Hanushek and Woessmann, 2011). In this section we shall briefly describe the main characteristics of the Italian school system and mention what are their possible implications in terms of inequality.

The Italian schooling system has been shaped over the years by a number of reforms that led to the gradual expansion of compulsory education and the creation of a more comprehensive system. The 1962 reform actually implemented a leaving school age at 14 (8 years of compulsory education), adding to primary school three further years of compulsory and comprehensive education. Earlier,
the system was divided in an academic track, leading to university, and a vocational track. The unification of the two tracks strongly incentivated school participation at both the lower secondary and the higher secondary level, especially in the technical and vocational institutes.

Compulsory leaving age was then raised from 14 to 15 in 1999 and to age 16 in 2007\(^{23}\) so that at present education is formally compulsory for 10 years (from age 6 to age 16). It includes the first cycle of education (5 years of primary school followed by 3 years of lower secondary school) and the first two years of the second cycle of education. The last two years of compulsory education can be accomplished in three different ways: either in upper secondary schools (licei, technical institutes and vocational institutes) or within the three-year vocational training courses run by Regions (law 133/2008), or even in an apprentice contract with a firm. However, the latter often do not involve much formal training, as most training activities take place on the job. In this way, firms provide to youngsters aged 15 and 16 a way to de facto avoid the last two years of compulsory schooling.

Therefore, the school system is unified and comprehensive until age 14, when pupils have to choose between academic and vocational tracks. The timing of tracking and the extent to which pupils with similar ability, socio-economic characteristics and interests are allocated to separate schools constitute an important dimension of the education system that has key implications in terms of equity. In fact, when students are allocated to separate tracks according to their ability, more able pupils will benefit from being with each other, while low ability pupils – that are likely to come from poor family background – lose something, from not having this peer group around. Early tracking is thus likely to increase educational inequality, reinforcing the ability gaps between pupils coming from different family backgrounds.

In this sense, the Italian system is less stratified compared to many other European Countries, where the age of first selection into school tracking is lower (e.g. at age 10 in Austria and Germany, 11 in Czech Republic, Hungary and Slovakia, 12 in Netherlands and Belgium). Nevertheless, Checchi and Flabbi (2007) argue that in Italy (compared to Germany) parental education is more relevant than ability in determining the choice of different tracks, which tends to reinforce intergenerational persistence. This depends on the mechanisms allocating 14-years old pupils to the different tracks: while in Germany this allocation depends to a big extent on teachers, whose indication are binding in most of the German Länder, in Italy the allocation depends almost exclusively on the family, whose choice is not constrained by the school. Thus, ability does not pay a big role in this process, while familiar aspirations and motivation do.

\(^{23}\) Financial law of 2007 and Ministerial Decree 139/2007
Another important aspect of school design that is found to improve equality of education is the widespread provision of pre-primary education. In fact, Cunha and Heckman (2007 and 2009) found that investments in early education are more productive than those at later stages, and that they have a direct impact on equity, as the rates of return to investment in early education tend to be higher for children from disadvantaged families, while at older ages they tend to be higher for children from well-off families.

In Italy, pre-primary education lasts 3 years and is addressed to children from 3 to 6 years of age. The pre-primary level is part of the education and training system, yet it is not compulsory. The state took over complete responsibility in the sector of pre-school education only in 1968, when it recognised its educational value. Since then, even if not compulsory, pre-primary education has been provided free of charge by the state, and the only things families have to pay are small contributions, from which low-income households are exempted, towards transport and canteen services. Over the last 10 year, several laws have stressed the objective of generalisation of the offer and a widespread attendance of pre-primary school. In this spirit, the reform of the education system in 2003\(^{24}\) provided for the full introduction of pre-primary education in the education system. As a result of these policies participation in pre-primary education increase substantially (see figure \textbf{Fout! Verwijzingsbron niet gevonden.}) until around 100\% of participation.\(^{25}\)

Other dimensions that may affect educational inequality are related to the school admissions arrangements and school competition. Public school admissions can be broadly organised around two models of school provision: 1) \textit{neighbourhood-based} systems, where admission is purely determined by where pupils live, typically with rigidly defined catchment areas; 2) \textit{choice-based} systems that are meant to give parents a wider choice set not limited to neighbourhood schools. Choice-based systems are found to increase social stratification of schools along lines of ability, ethnicity and socio-economic status, since families with higher socio economic status benefit at the expense of the poor, because they are advantaged in their ability to exercise choice as they are better equipped at making good decisions and they are also less constrained by transport costs (see for example Gibbons and Silva, 2006). In Italy, enrolment in state schools doesn’t depend on catchment areas and the families can choose whether to enrol the pupil at the school of the area of

\(^{24}\) Law no. 53 of 28 March 2003

\(^{25}\) Gross enrollment ratio is defined as the percentage of pupils enrolled in pre primary of education regardless of their age over the population of the age group which officially corresponds to that level of education. Since pre primary schools also accept early enrolments (pupils aged less that 3), this percentage can potentially be higher than 100\%. 
residence or in any other school they may prefer, provided a place is available. When available places exceed demand, priority is given to those who live in the local area.

Related to the question of school competition, the proportion of private school enrolment (that implies that public schools face more competition) is found to increase the effect of students’ social origins on their school performance, thus reducing social mobility (Ammermuller, 2005). This problem is not relevant for Italy, that has a relatively small private school sector (as shown in figure 78). Moreover, Italian public high schools are associated on average to better performance than private schools that appear to focus more on the recovery of less brilliant students than on high quality education (see Bertola and Checchi, 2002).

Figure 77: Gross enrolment ratio - pre-primary education

Source: UNESCO Institute for Statistics (UIS)
Finally, an important tool to promote equality and reduce the disparities in the skills’ levels across the adult population is the provision of some forms of adults’ education or training (see also Checchi and Meschi, 2011). In terms of provision of lifelong learning, Italy seems to lag behind compared to other European Countries. Using data from Adult Education Survey (AES), as reported in Eurydice (2011), we graphed the percentage of adults (aged 25 to 65) participating in formal and non-formal education and training in the 12 months prior to the survey (see figure 80) for a sample of European countries. We can notice that Italy registered relatively low levels of participation in both formal and non-formal training (respectively 4.4% and 20.2%, lower than the EU average at 6.2% and 31.2%).

When disaggregating these data according to the highest level of education attained, it can be observed that – as in all European countries - those with a lower educational attainment have the lowest participation rates in non-formal education. In the EU, only around 0.6% of under-qualified (ISCED 1 or 2) adults participate in any kind of non-formal education and training, whereas the participation rate of those who have completed upper secondary education is 6.1%, and for those who have completed tertiary education, 13.8% (data from Eurydice (2011). We are in presence of another cumulative mechanism producing social inequality: those who got more education from school are the ones who get more education also after school, during their work careers.
4.8 Conclusions: appraisal of the interdependence and the ‘national story’ of inequality drivers in relation to policies (causes and effects)

In the previous section we have described the main features and trends of the instruments available to the Italian policy makers to reduce inequality. In this paragraph, we present a summary assessment the effectiveness of public policies to reduce inequality. In fact, there is a strong negative correlation between social transfers and indicators of income inequality. Figure 81 reports, for instance, a cross-plot of the GINI coefficient with respect to spending in social transfers as a % of GDP. The graph shows a negative correlation: countries who spend more have lower inequality.

Figure 79: Adult participation in formal and non-formal education and training, age 25-64 (%), 2007

![Graph showing adult participation in formal and non-formal education and training](image)

Source: Eurydice (2011)

However, this association could be interpreted in two ways. On the one side, it may suggest that countries with high inequality lack the economic and political means to fund social programmes, the so-called “Robin Hood paradox” according to which redistribution is lacking where is more needed (Lindert, 2004). It is a macro version of the “vicious circle” cumulative mechanisms we repeatedly described in this report.

On the other side, the same association could be interpreted as evidence that social transfers are effective in reducing inequality. In general, it is difficult to establish a clear causal link along with its direction, without exogenous variation either in inequality or in social expenditures. This argument, shown here for social expenditures, can be generalized or expanded to the other components of policies aimed at reducing inequality.

According to OECD, in Italy income taxes and cash benefits contributed in the late 2000s to reducing inequality by close to 30%, which is higher than the typical OECD country in which the corresponding figure is about 25% (OECD, 2011). This is shown in Figure 81. Moreover, the effectiveness of the tax-
benefit system at fighting inequality increased over time. Indeed, while only half of the rise in market income inequality was offset by taxes and benefits prior to mid-1990s, the rise in inequality since then was completely offset. However, we have seen that during the last two decades, the relative stability of income inequality went along with an increase of wealth inequality and of consumption inequality.

OECD (2011) also states that the contribution of social services to the of decrease income inequality in Italy was close to 20% in 2007, a level similar to that of many OECD countries. This figure declined since 2000, in which the contribution of social services was about 25%.

Figure 80: Social transfers and income inequality

4.9 Conclusions

All the measures of this report are based on net income because the data do not report gross income values but a comparison with OECD sources allows us to conclude the following.

We conclude this report with a reflection on the evidence provided by figure 82. At first glance, the evidence brings good news concerning the capacity of the Italian state to reduce, via taxation, the income inequality produced by the market. OECD (2011) itself, in fact, puts this interpretation to the forefront. From this point of view, much of what we have observed and commented concerning the weakness of the Italian state and its socio-economic implications seems to lose some weight. However, the figure also confirms what we observed in the Introduction to this report, namely that in Italy income inequality, be it pre- or post-taxation, is at its highest among OECD countries, and a fortiori among European countries.

How can those two, somehow opposite, interpretations be put together? One could say that a strong Italian state is able to significantly reduce a relatively high level of income inequality produced by a very anti-egalitarian market. However, this interpretation forgets the fact that the role of the state in the economy is not limited to taxation. The state also regulates the economy, in two ways: directly, via laws and administrative regulations concerning economic life, and indirectly, via the provision of incentives who shape the behaviour of economic actors. Considering this, one could first observe that the Italian state regulates the economy in such a way that the market produces more inequality than it is elsewhere: even more than in the US, according to the OECD figures.

So, despite being very high, the tax burden heavily weighting on Italians can remove just a relatively small part of the large income inequality produced by the market, because the state is unable to
regulate it as to produce a level of inequality similar to those of the other European countries (with the exception of the UK). Thus, this reduction, despite being relatively large, comes to a big cost in terms of relations to the tax-paying citizens, who feel the costs of heavy taxation without getting its benefits in terms of the provision of services and the efficiency of the administration.

This is the first part of the national story of inequality in Italy: the weak redistributive role of the state which in turn causes distrust and political instability. Italy is surely characterized by a high level of inequality however inequality has not grown in the last decades and the last serious increase is due to the recession of 1992. In the current recession we have not recorded so far an increase in inequality but it is possible that the prolonged nature of the recession will eventually change the situation in the next future. The second dimension that makes inequality high is the geographical dimension which is still unsolved since Italian unification 150 years ago. This has ultimately to do with the weak industrial structure of Italian Mezzogiorno and its unreformed local politics. Among the reasons of the high level of inequality stands the high percentage of self-employment (almost 25% of total employment) and the diffusion of temporary contracts in the young generation of workers. These two phenomena are interrelated because the most common temporary contract (and the one that puts Italy outside the average in Europe) is a form of self-employment which masks a dependent worker relationship. Italy withstood rather well in the current crisis essentially for two reasons: the widespread use of short time work which avoided much of the negative effects on employment and inequality and the insurance mechanism at the family level. Although most of the job losses, -800,000 jobs between 2008 and 2010, are concentrated in temporary jobs held by young workers (which pushed the youth unemployment rate to 30%), we have not recorded an evident increase in inequality. This phenomenon can find an explanation in the insurance role of the family: as it is typical of the Mediterranean version of the welfare regime, the core institution providing care to those in need is the family: most of the assistance to children and the elder is carried out by unpaid female members of the households. This setting is in turn related to the labour market where female employment is comparatively low, and there is a strong employment protection for the adult male “breadwinner”. A second explanation is surely connected with the high levels of private net wealth of Italian households, mainly concentrated in house properties. This savings stock has allowed Italian household to whether the crisis and smooth the negative impact across various members of the family (which appears in the different and much lower inequality measures when using equivalent scales). This equilibrium however has certainly some negative aspects in the long run because maintains the geographical and gender disparities while housing property is an obstacle to labour mobility and to intergenerational equality based on merit and education achievement rather than family wealth.
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