Italy and the political economy of decline

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Workshop on
The social and employment impact of the crisis in Europe,
Berlin, 21 June 2013
The downward spiral

- The current depression and the EU context
- Sliding into the periphery: Italy’s long decline
- What has happened?
- Wage decline and record inequality
- Why it is not an issue?
- A political economy view
- The prospects for Italy (and for a centre-periphery Europe)
Sources

- M. Pianta, *Nove su dieci* (Laterza 2012)
  "Nine of ten. Why we are (almost) all worse off than 10 years ago"

- G. Marcon, M. Pianta, *Sbilanciamo l’economia* (Laterza 2013)
  "Off balance. A way out of the crisis"

- www.sbilanciamoci.info and Campaign
Five years of depression

- The crisis and austerity
- Italy’s GDP:
  - -1.2 percent in 2008, -5.1 in 2009,
  - stagnated in 2010 and 2011,
  - 2012: GDP -2.4%, likely -2% in 2013
- Steep fall of investm, modest exp dyn
- Imports fall with incomes (no BoP crisis yet)
- Use of families’ savings to sustain consumpt.
Few and bad jobs

- 11.1% unemployment rate, 2.8 m
- 520,000 Cig, soft layoffs
- 1.5 m discouraged unemployment

Total: 18% jobless

37% youth unemployment

2 m Neet

4.5 m precarious workers (40 different contracts), 
1/4 of all employees.
Europe’s austerity

- Power of finance, neoliberal austerity
- High debt, cuts of spending
- Excessive deficit procedure, now 3%
- Failure of austerity policies
- Even higher public debt 130% GDP
- Little private debt
- Result: depression
The vanishing industry

- Industrial production is 25% below the pre-crisis level of 2008
- Major industries are downsizing: auto, steel, engineering
- Banking crises start now
- Criminal economy only growth industry
- Italy is again a country of emigration
Longer term decline

- Real income in 2012 is back to levels of a decade ago.
- 2002-2011 avg growth 0.3% against 1.1% in Germany, France.
- 2000-2009 labour productivity -0.5%, now back to the levels of the early 1990s.
Sliding into the periphery

- Small firms, weak industrial districts
- Low tech, little innovation, R&D
- Focus on cost competitiveness
- Low skill jobs
- Finance draining even family owned business
- Lack of investment
- Precarious work made labour cheaper, leading to low productivity
What has happened?

- Since 1992, privatization of state industries,
- Loss of large hi-tech firms (foreign takeovers),
- Market loss of in EU single market, loss of global market shares
- Weaker positions in value chains, no strong leading firm even in sectors where Italy is strong (fashion)
- North Italy: industry networks integrated in German-controlled production systems
- South: industry disappears
Distribution
Low wages, rising poverty

- 2010 avg wage **28,000** euros
  (prov sect, full time, gross of taxes)

Against **42,000** or more in most EU countries

- Rising poverty: 11% of families,
  8 m people live with less than 1000 euros per month for a family of 2 people

- Little help from the black economy
Slicing decline

- **Profit share 2010 45% (2001 48%)**
  France, UK 33%, Sweden 30%
  Nat’l acc same as data for non financial corp.

- **Profits:** +3% 1993-2000; +0.6% 2000-2007.
  Gross wages: +0.8% 1990s; +1.8% in 2000s.
  Avg wage per worker: -0.1% two decades.
  Germany: profits +3% before 2000, +2.8 after
  wages per worker: +1.1 before 2000, +0.1 after

*(Manuf and services, Urbino Database)*
The mix of decline and inequality
How many losers?

- Total Italian employees 17 m 2010
- 11 m industry, services, 4.5 m public sector, 1 m construction, rest personal services.
- Wage decline even greater in non unionised sectors, public sector freeze
- Among them, 4.5 m part-time, fixed-term, with very low wages
How many winners?

- Self-employed of all types 4.8 m,
- 1 m part-time, collaborators with low wages
- Istat’s 2010 LFS: 208,000 entrepreneurs, 840,000 professionals, 313,000 managers, total 1.4 m
- 2.6 m craftsmen, shopkeepers, providers of services. Take away 1 m low wage collab, assume half of the rest has done better than wage earners: 800,000
- Total winners: 2,2 m, 1 out of ten
Winners by occupation

- 900,000 Legislators, managers, entrepren.
- 2.3 m “intellectual, scientific and highly specialized professions”. Among them: tax account. lawyers, doctors: **winners**. teachers etc.: **losers**. Assume half are winners (1.15 m), total of little more than 2 m winners
Individual incomes, OECD

- Avg disposable income of households of working age €19,400 2008.
- Top 10% €49,300, 90% €16,000 (three times); poorest 10% €4,900 (ten times)
- Mid-1980s: 2.8 times; 8 times
Slicing the cake, OECD

- Mid-1980s to 2010, real disposable income working-age population increased by €126 b. Top 10% took 42 b. Bottom 10% €8 b.
- Total increase +0.8% per year (lowest in EU)
- Top 10% +1.1% €11,000 each
- Bottom 10% +0.2% €200 per capita
- France, Belgium, Ireland, Spain, Portugal, Greece, incomes poorest 10% rose faster than the rich
Super-rich and ultra-rich

- **Richest 1% of working age Italians** - 380,000 super-rich - had 10% of income in 2008 (7% in 1980s). One “super-rich” for 40 poors.

- **Richest 0.1%** – 38,000 “ultra-rich” – 2.6% of income (1.8% in 1980s), €19 b, over €500,000 each. One “ultra-rich” for 100 poors.
Measures of inequality

- Stable picture: Gini of market incomes of all population, 0.42 mid-1980s, 0.56 mid-2000s, 0.53 in 2008 (jump in 1992)
- Only UK and Portugal are more unequal
- Atypical employment brings inequality
  Without self-employed, mid 2000s Gini drops to 0.25; without part-time workers falls to 0.22, one of the lowest in EU
Redistribution works

- Germany, France, Austria, Belgium: market income Gini working age above 0.4, similar to Italy.
- Redistribution brings it below 0.30-0.25
- Counting value of public services, Italy’s Gini falls from 0.33 to 0.27, still the most unequal after Estonia, Greece and Portugal. Worse than UK. (Sweden, from 0.24 to 0.18)
Top incomes, from tax returns

- Atkinson and Piketty, Alvaredo and Pisano:
- 1% super-rich - 470,000 - €146,000, 9% of total income.
- 0.01% mega-rich - 4,700 — €1.3 m, 3% of total, all growing shares
- The richest 5% increases share from 16 to 23% in twenty years.
- Top 10% has two thirds of income from labour, tax evasion on other incomes?
Wealth, Bank of Italy survey

- Total wealth in Italy €9.5 trillion in 2010, 7.5 times than 1965 (inherit, sav., cap. gain) per capita wealth 143,000

- 1985: net wealth equal to GDP

2009 5.7 times GDP (4.5 net of public debt).

- Wealthiest 10% of households 45% of wealth, 27% of income.

- Ten richest have wealth equal to poorest three million (Cannari and D’ Alessio, 2006).

One rich for 300,000 poors
Losers in wealth

- Below average wealth for:
  - White collars,
  - Blue collars (44% of avg)
  - All age groups below 55

- Lower private debt than EU
Financial wealth

- 2000-2008 net financial wealth of Italian households equal 1.6 times GDP (Istat, 2010)
- France, Germany, Netherlands net household financial wealth around 1.2 times GDP.
- Weaker investment in Italy, deaccumulation from firms
- The benefits of growth of the 10% were concentrated here
- Decoupling of wealth from the real economy, rich without risks
Lessons from the evidence

- Decline and inequality are interlinked
- Inequality of *outcomes*, more than opportunit.
- Within the nine out of ten, *complexity*
- Not poverty, but inequality
- Key role of wage decline, labour relations
- Key role of finance (vs. real economy)
- Vicious circle with low investm, prod, decline
- Bitter fruits of *Europe*
A political economy view

- Nine of ten are worse off, economic decline
- Why this is not an issue? Elections ignored this
- Political stalemate reflects the economic impasse
- Neoliberal consensus, Italian style
- Protection of privilege, tax evasion, material interest in home ownership, finance displacing labour, fragmented, short termist social bloc
- Lack of conflict,
- Need for a post-liberal social bloc
Italy and Europe

Italy has had few benefits from **EU integration**
(ind, mk, finance, euro, int rates, cons)

Not extreme case as Greece, Spain, Portugal, but clear move to a centre-periphery Europe:

- Econ decline, impoverishment,
- Tradition of pro-EU attitudes, now fall of consensus
- Populist drive in electoral behaviour: anything may happen
Centre-periphery Europe

- Can this polarised Europe survive?
- Need for a change of course of Europe (Another road for Europe, Euromemorandum)
- Not just in macro/demand/debt/euro policies also jobs/distribution/wage/inequality/opport
- Electoral politics does not understand the crisis, inward/local/defensive behaviour
- Need for a new politics, democracy