

Italy and the political economy of decline



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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 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% unempl rate, 2.8 m
- 520,000 Cig, soft layoffs
- 1,5 m discouraged unempl

Total: **18% jobless**

37% youth unempl

2 m Neet

4.5 m precarious workers (40 diff 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, privatiz of state ind,
- Loss of large hi-tech firms (foreign takeovers),
- Market loss of in EU single market, loss of global mk 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 employm 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**