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1. Introduction

The aim of this chapter is to evaluate the main effects on the incomes of Italian households of the fiscal consolidation measures that the government has introduced after the start of the great recession in 2008, with the objective of reducing the deficit of the public budget.

The questions addressed in this chapter can be summarised as follows:

- a) What is the overall distributive impact of austerity measures on the income distribution of Italian households?
- b) Which social and economic groups have been more affected?
- c) What is the relationship between the changes in income distribution in the last decade in Italy and the changes produced by the policy measures?
- d) When designing which measures to introduce, did the government take into account the underlying changes in income distribution during the crisis?

The second section describes the evolution of income inequality and poverty before and after the onset of the great recession, while the third provides some details of the simulation method and presents the distributive effects of the austerity package on Italian households. Finally, the fourth section discusses these results and puts them in a more general context.

2. The distribution of income in Italy during the last decade

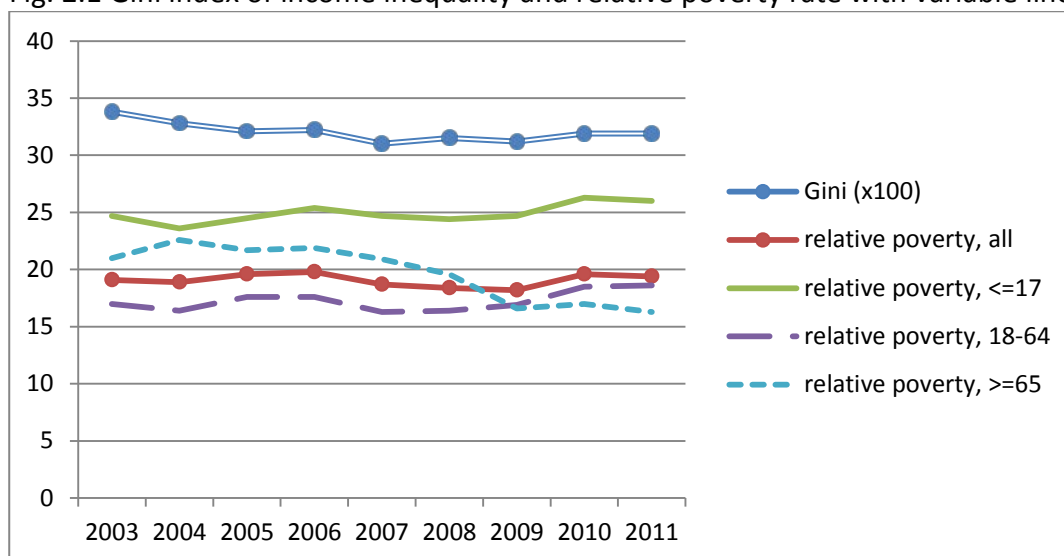
Italy has been one of the countries most severely affected by the global recession that started in 2008: in 2013 its gdp was still 7.5% lower than the 2008 level, while other countries have been able either to regain the pre-crisis level, or to significantly reduce their losses. The recession had immediate consequences for workers, with a strong increase in the unemployment rate and in the number of layoffs. For the whole population the employment rate has fallen from 58.7% in 2008 to 55.6% in 2013, while the unemployment rate has risen from 6.8% to 12.4% over the same interval. Labour market conditions have deteriorated in particular for younger cohorts: the employment rate of the age class 25-34 years, for example, has fallen from 70.1% in 2008 to 59.4% in 2013. For older workers (55-64 years of age), on the other hand, the employment rate has risen from 34.4% in 2008 to 42.7% in 2013.

According to statistics available on the Eurostat web site, computed on the Silc survey (Statistics on income and living conditions), income inequality in Italy has been quite stable during the last decade: the Gini index fluctuated around 0.32 (Fig. 1) with a slight decline in the first part of the

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period.² This index, like the others shown in this sections, is computed after assigning to each person the equivalent disposable income of the household to which he/she belongs. Also the headcount rate for relative poverty, defined as the share of people living in households with disposable equivalent income lower than 60% of its median, is in 2011 close to its levels before the crisis. If we compute the headcount rate for different age groups, however, some changes start to emerge: the index is decreasing for the elderly and slightly increasing for children. The headcount rate computed with a variable poverty line is however an unsatisfactory indicator of the risk of poverty when there are significant changes in the overall levels of income, since during a recession the poverty line falls: if all incomes decrease in the same proportion, the share of persons in poverty would not change at all, even in the presence of a generalised reduction in living standards. The data shown in Fig. 1 highlight in any case a change in the relative positions of the elderly and the youth in the global Italian income distribution.

Fig. 2.1 Gini index of income inequality and relative poverty rate with variable line

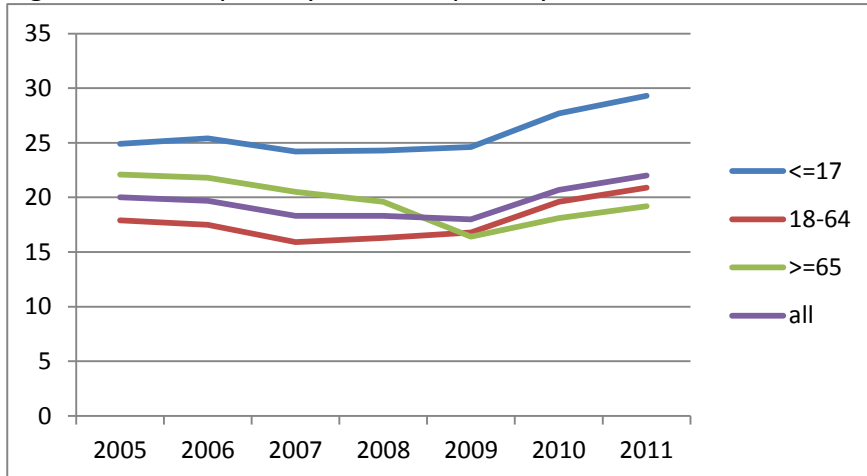


Source: Eurostat database, Silc.

A better indicator of what has been happening to income poverty in Italy can be obtained by keeping fixed over time in real terms the poverty line computed in a given moment. Choosing 2004 as the reference year for this more “absolute” measure, poverty has significantly increased after the start of the recession for all age classes (Fig. 2.2), in particular for younger cohorts, while the headcount rate of the elderly is in 2011 still lower than its the pre-crisis level. From Fig. 2.2, it seems that in the first two years of the recession poverty did not increase, and that only in 2010 the index starts to rise. The fact that poverty among children and youth increased more than for the elderly is common to most Oecd countries, with very few exceptions (Oecd, 2013).

² In this section we present data obtained from the Eurostat database available online, a particularly useful reference since it contains statistics on income distribution that reach the year 2011, while the most updated database available to external researchers in February 2014 is Silc 2011, with income data referring to 2010. The household income definition used for the statistics in the Eurostat database is monetary disposable income, i.e. it excludes imputed rents from owner-occupied dwellings or other properties.

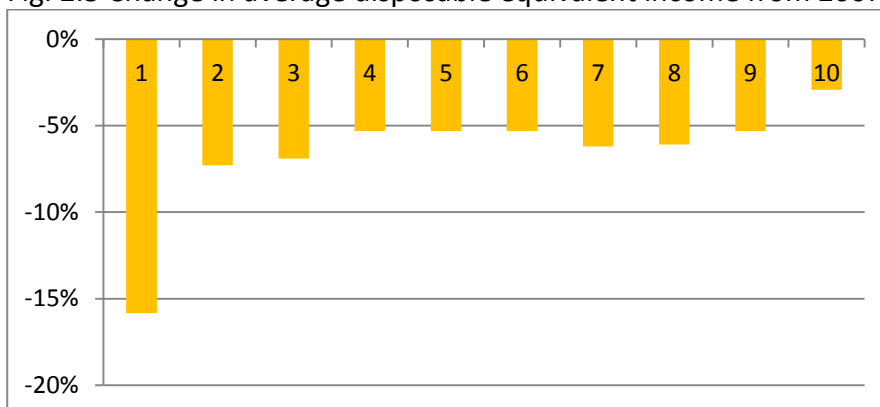
Fig. 2.2 Relative poverty rate with poverty line fixed in real terms at the 2004 level



Source: Eurostat database, Silc.

The Gini index too has some problems as an indicator of inequality, since it is particularly sensitive to income changes that involve the intermediate deciles of the distribution, while it does not change much after movements among the rich or the poor. In the first four years of the crisis, the Gini index (multiplied by 100) increases from 31 to 31.9, a not negligible move, but certainly not a clear explosion of inequality. Still using the Eurostat database, Fig. 2.3 shows the percentage change in real disposable equivalent monetary income by deciles of persons from 2007 to 2011.³ All suffered on average a decline in their real incomes, but this fall has been particularly high for the poorest 10%, while the richest 10% of the population was the least affected. A similar pattern (the first decile losing more than the tenth) has been observed in other Mediterranean countries like Spain and Greece (Oecd 2013) and in the majority of Oecd member states. Notice that these changes incorporate all factors that may have modified the income distribution over these years, i.e. the job losses, the reductions in revenues for those who have maintained their activity, and both the automatic (e.g. unemployment benefits) and the discretionary changes in government policies. The strong reduction in the incomes of the poorest decile can be explained also by the lack, in Italy, of a universal income maintenance scheme, which could have sustained the incomes of households hit by job losses or other income shocks.

Fig. 2.3 Change in average disposable equivalent income from 2007 to 2011, by deciles



Source: Eurostat database, Silc.

³ A very similar graph for the interval 2008-2012 can be obtained from the Bank of Italy survey.

The overall stability of the income distribution that the slow evolution over time of the Gini index may suggest, therefore, hides some important changes that have been taking place in the last few years. First, as just seen, the economic conditions of the poor have been drastically worsened by the recession in a short time span. Second, the groups more severely hit by the crisis are the young and in general those households that have been more exposed to the global recession and to the reduction in employment levels (Brandolini, 2014). The crisis in Italy has been mainly not a financial but a real event, producing its effects with a reduction in employment levels and thus in incomes from labour, both wages and self-employment income. Incomes from pensions and public transfers, on the other hand, have not suffered a similar fall. In the years after 2008, the first effects of the recession have been particularly felt by the areas more exposed to international trade, i.e. the northern part of the country. The groups more hardly hit by the recession have been the dependent workers of the industrial sector and in particular those with lower levels of education or the immigrants. Often, these workers are also young, and in many cases those who have been laid off still live with their parents. The propensity of many young people to stay in the family of origin for a long time may have mitigated the negative consequences of the surge of dismissals on the living standards of Italian households (Mocetti et al., 2011). The loss of jobs has also affected many families with children, so that the poverty rate of the youngest generations, already high by international standards, has risen further. According to Silc data, before the onset of the recession, from 2003 to 2007, all incomes grew (Tab. 1) at similar rates, but during the first 4 years of the crisis the elderly managed to maintain, on average, their previous living standards, while the other age classes suffered a significant reduction in income. In particular, each person living in Italy has seen his equivalent income fall by 5.3% from 2007 to 2011, the latest available year with data on incomes, but for those aged less than 17 years the reduction has been nearly double, by 9.3%. The other major survey available for the analysis of the incomes of Italian households, the Bank of Italy Survey of household incomes and wealth, provides a picture of income changes that is consistent with the Silc data (Bank of Italy, 2014), but with a difference: behind the impression of stasis, before the start of the recession the distribution of income was changing in favour of pensioners and of the self-employed, with the employees losing ground. With the beginning of the crisis, these trends did not change for pensioners and employees, albeit the improvement has been only in relative terms, while also the incomes of the self-employed have started to fall.

Tab. 2.1 Change in average equivalent income by age groups

	<=17	18-64	>=64	Total
2003-2007	4.1%	1.7%	3.2%	2.2%
2007-2011	-9.3%	-6.3%	1.5%	-5.3%
2007-2011	-5.6%	-4.7%	4.8%	-3.2%

Source: Eurostat database, Silc.

Despite the intensity of the fall in gdp since the first years of the recession, the Italian government could not react to it with strong countercyclical fiscal policies, due to the high levels of the public debt and of the deficit. The debt-to-gdp ratio increased after the fall in the denominator and the surge in interest rates, while the deficit exceeded the 3% limit in the early years of the recession,

even if by much less than in other European countries. The Italian government first limited itself to linear cuts in public expenditure (including the freezing of public sector wages), often delegated to local authorities, and responded to the social stress caused by layoffs by allowing a strong increase in spending on unemployment benefits and on the Cassa integrazione guadagni, a wage supplement fund targeted to workers of firms suffering a temporary reduction in demand aimed at preventing their layoff. Due to the persistence of the recession and the precarious conditions of the public budget, however, during the summer of 2011 the international financial markets stopped believing in the sustainability of Italian public finances and triggered a political turmoil. The new government led by Mario Monti that came into power in November 2011 finally introduced a heavy package of austerity measures, focused in particular on a drastic pension reform, on a partial reform of labour market rules and on new taxes on real estates. In 2013, after inconclusive general elections, the Letta government continued the same restrictive policies, with new interventions on indirect taxation, but failed to maintain the commitment to remove the property tax on primary dwellings and tried a first timid attempt to reduce taxes on wages, through a change in the tax credit for dependent workers in the personal income tax.

3. The distributive impact of austerity measures

3.1 Simulation strategy

Our aim is to study how the fiscal austerity measures introduced by the government after the start of the crisis have changed the distribution of income among Italian households. We need therefore information on the policy changes, and also on the counterfactual distribution, i.e. what would have happened to incomes without any fiscal consolidation measure. In very general terms, the differences between the distributions of “real” disposable incomes observed in two years, for example in 2008 and in 2014, depend on two sets of variations that have taken place in this interval: a) changes in the structure of original (i.e. before taxes and transfers) incomes; b) changes in the rules of the tax and benefit system. If we want to focus on the effects of policy changes in the period, we need to choose a distribution of original income, keep it fixed and apply to it two different vectors of policy parameters, those in force in 2008 and those of 2014. For the reference 2008 original income distribution, we take the 2008 incomes and update them to 2014 using the consumer price index.⁴ To this vector of incomes we apply the policy rules that would prevail in 2014 if no discretionary variation in them had been introduced from 2008 to 2014, so we simply update to price changes the policy parameters, when the existing rules provide for that (for example, pensions), while keep the parameters fixed to 2008 levels if no automatic adjustment mechanism exists (e.g., the bracket limits of the personal income tax).

The resulting counterfactual distribution provides the disposable incomes that would exist in 2014 if pre-tax and benefit incomes were fixed in real terms at their 2008 values, without any change in policy parameters in the last six years. The fact that some policy parameters are fixed in nominal terms implies that the net income distribution used as a counterfactual is different from that of the disposable income in 2008 simply updated with the consumer price index; for example, our disposable incomes are lower due to the fiscal drag effect, since the parameters of the personal income tax are not automatically adjusted to inflation. The distribution after policy changes that is compared to the counterfactual one is obtained by applying the 2014 policy parameters to the vector of original incomes already described. The difference between the two sets of disposable

⁴ For 2014 we assume a 1% inflation rate.

incomes is therefore due only to the discretionary policy changes introduced over the period. This approach is similar to that followed by Avram et al. (2013); apart from other minor differences, the main ones are the time span covered, which goes to 2014 in our case, the different simulation of indirect taxes and the inclusion of the change in user fees for health goods and services. Further, we do not try to simulate how the crisis may have changed the underlying market distribution through a reduction in employment (see, on this, Brandolini et al. (2013) and Baldini and Ciani, 2011), because we are interested only in the effects of policies, and do not have data on “real” incomes after 2010. To perform the simulations we need just one dataset, and use the 2009 Silc survey for Italy, with 20.492 households and 51.196 individuals, providing data on individual and household characteristics for 2009, and incomes for the year before.

The measures that have been simulated can be classified as follows:

- Freezing of cost-of-living adjustment for pensions above three times the minimum pension level in 2012 and 2013, and above higher limits in 2014.
- Freezing of cost-of-living adjustment for public wages from 2010 to 2014. Public sector employees have been identified according to the following Nace (rev. 2) categories: 1) Public administration and defence, compulsory social security, 2) Education and 3) Human health and social work activities.
- Increase in the ordinary Vat rate from 20% to 22%.
- Increase in regional and municipal surtaxes to the personal income tax.
- Increase in social security contribution rates for the self-employed (+2.2%)
- Various increases in excise taxes on petrol and gasoline.
- Solidarity contributions on high incomes (3% of income above € 300.000), plus another solidarity contribution for high pensions and public sector wages (6% of incomes between 90.000 and 130.000, 12% between 130.000 and 193.000, 18% over 193.000).
- Reform of the property tax and reintroduction of the cadastral value of the first dwelling in its base.
- Tax on the stock of financial wealth.
- Increase in co-payments required to get public health services and drugs.

Here we provide some details of the simulation choices adopted to reproduce these policy changes in the Silc dataset.⁵ The Silc survey does not contain information on household expenditure. To estimate also the effects of change in Vat and excise rates, we therefore matched this dataset with the 2008 Household budget survey for Italy, a survey carried out every year by the National institute of statistics that collects detailed data on more than 200 goods and services purchased by Italian households. The match is performed with the propensity score method, and allows to associate to each Silc household a complete vector of expenditures, which have been updated to 2014 with the consumer price index so as to contribute to the formation of the counterfactual distribution. The Silc survey does not contain also the data on the value (both market and cadastral value) of dwellings and other real estates owned by the households. This is a very important piece of information since the cadastral value of real assets is the base of the property tax introduced in 2011 by the Monti government, one of the most important ingredients of the austerity package. We make up for this shortcoming by imputing to our dataset the information contained in the Silc 2008 survey about the property tax (Ici, Imposta comunale sugli immobili, i.e. municipal property tax) paid in 2007 on the primary residence. The Berlusconi government abolished the tax only on primary dwellings during 2008. From the amount paid and

⁵ The simulation codes are available from the author.

using its rule of computation, it is possible to obtain an estimate of the tax base, i.e. the cadastral value of real assets. Usually the analyses of the effects of fiscal consolidation measures take into consideration the changes in taxes and benefits that have a direct impact on household budgets. People, however, may suffer also from austerity measures that produce a reduction in public expenditure, particularly when they result in a cut in public services or in an increase in their (below market) prices. For example, for the first time in 2013 the national health fund was cut in real terms, and over the last few years the national fund for social policies, which finances local authorities' social expenditure, has been severely cut. These reductions are very likely to produce negative and regressive effects on households' budgets. While we cannot simulate the impact of all the attempts to cut public expenditure in general and social spending in particular, we make at least one step in this direction by taking into account the significant increase in the user fees for public health services and drugs that has taken place during the crisis, in particular in 2011 when a copayment of € 10 for each specialist examination or test was introduced by most regions. According to Agenas, the National agency for regional health services, Italian households spent on user fees for drugs, visits, tests and emergency aid about € 2.6 billion in 2009.⁶ This amount is expected to grow to € 4.5 billion for each year since 2012. In order to simulate the effect of this increase on household incomes, we first rule out from its payment all households who are statutory exempt to it for age or income reasons, then distribute the increase in the user fee as a proportion of the amount that each household spends for health services. The match between the Silc database and the household budget survey allows to attribute to each unit in the Silc survey a complete vector of expenditures, including those for health goods and services.

The pension reform of 2011 had important effects on the retirement age of many persons, and also left without income more than 100.000 individuals who had already left their job but could not immediately obtain a pension (esodati). We do not incorporate this effect in the simulations. One of the most important austerity measures has been the de-indexation of all public pensions higher than three times the amount of the minimum pension (€ 496 per month in 2014) during 2012 and 2013, followed only by a partial indexation of them in 2014. The de-indexation has been complete for all public sector workers, starting from 2010. We simulate these two measures, which are likely to have a progressive impact on income distribution. In the counterfactual, all incomes of pensioners and public servants are fully updated to inflation, so that the effect of the freezing is a reduction of incomes with respect to the no-policy change scenario. The personal income tax of pensioners and public employees is therefore lower in the post-reforms scenario than in the counterfactual one, despite the increase in local surtaxes. To the reduction of the personal income tax contribute also the two increases in the tax credit for children introduced in the period and also the increase in the tax credit for dependent workers deliberated at the end of 2013.

3.2 The effects on the overall income distribution

Consistently with the data presented in section 2, the unit of analysis is the individual. To each person of the sample we attribute the disposable equivalent monetary income of the household in which he/she lives. Equivalent disposable income is obtained using the modified Oecd scale to adjust incomes for differences in household composition. In the definition of income we do not include the rental value of property because the statistics presented in section 2, taken from the

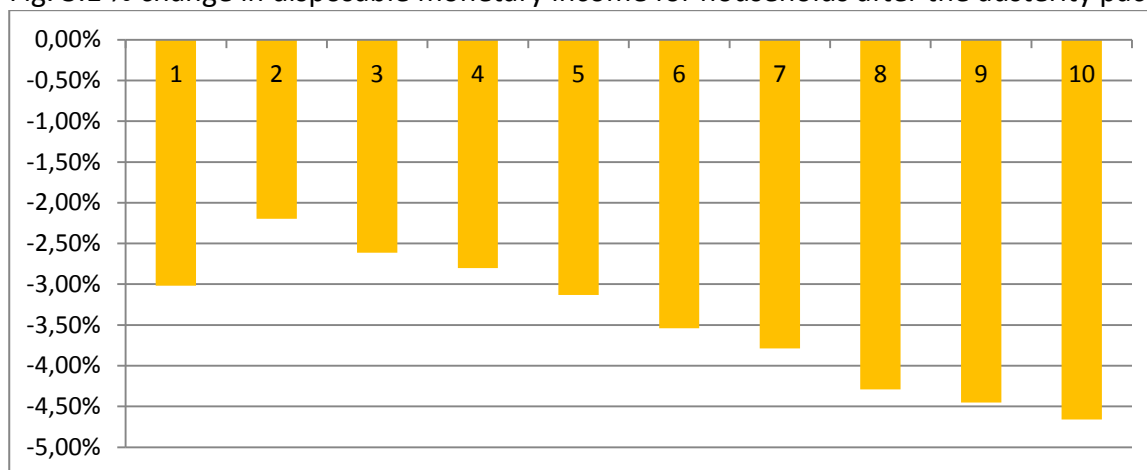
⁶ See Cislighi and Giuliani (2012), http://www.quotidianosanita.it/studi-e-analisi/articolo.php?articolo_id=8520 and <http://www.quotidianosanita.it/allegati/allegato3843437.pdf>.

Eurostat online database, exclude this component. This choice is likely to produce some consequences in the distributional results, since some households may be poor in terms of monetary income, but may belong to higher deciles in terms of an income definition that includes also imputed rents. This may be the case, for example, of some elderly households who have low monetary incomes but live in valuable dwellings. Since a significant part of the Italian austerity package consists of new taxes on property values, the distributive impact of fiscal consolidation may appear more progressive if individuals are ordered in terms of an income definition that includes imputed rents. We will come back to this problem below.

First, let's start with some statistics computed not on individuals but on households, so as to have a general view of the impact of the measures. On the whole, the average yearly monetary income of Italian households falls, after the consolidation package, by € 1265. In other words, without the measures described above each Italian household would have, in 2014, € 1265 more in monetary disposable income. This sum corresponds to 3.9% of average monetary household disposable income or, in aggregate terms, to about 33 billion, two percentage points of gdp. Among the deciles of disposable equivalent monetary income across households, the first (poorest) one loses € 247 in 2014, for the fifth the loss is € 822 and € 3674 for the richest 10%. It is worth repeating that these changes do not represent the whole losses suffered by Italian households, but only that part which is due to the austerity measures. Since the 2014 real incomes are lower than the 2008 values, the monetary losses, considering the impact on market incomes, would be lower. In this way we capture only the net impact of the austerity measures, *ceteris paribus*.

Fig. 3.1 shows the percentage reduction in non-equivalised disposable monetary income (with respect to the counterfactual situation) by deciles of equivalent monetary disposable income. The distributive effect of the whole austerity package is slightly progressive (the Gini index slightly decreases), but the incidence over the households belonging to the poorest decile is similar to that of the middle of the distribution.

Fig. 3.1 % change in disposable monetary income for households after the austerity package

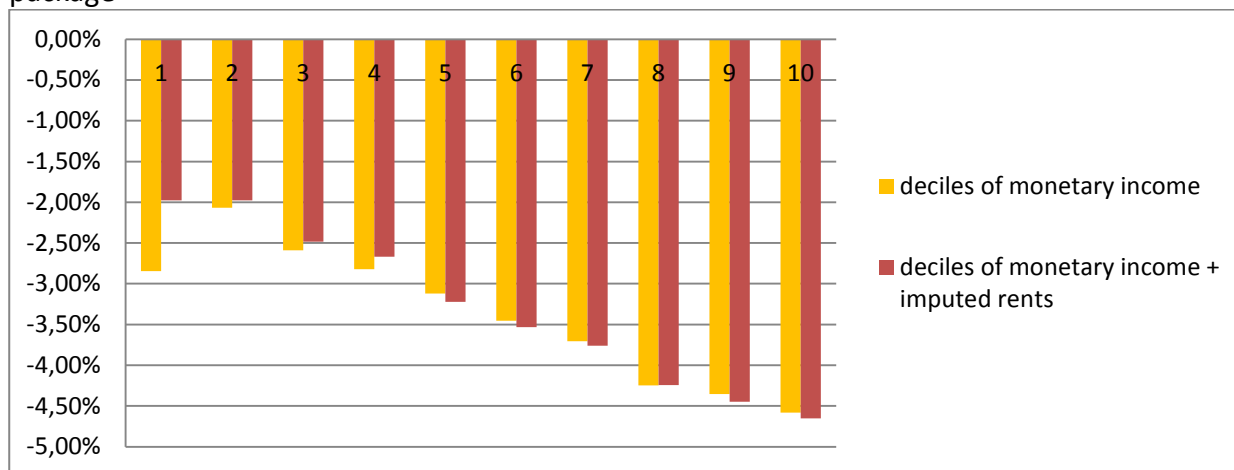


Note: households ordered by deciles of disposable monetary income computed over households.

Turning to the individual analysis, Fig. 3.2 contains the change in disposable monetary income for each decile of the personal distribution. We show the reductions in monetary income for the deciles of both monetary income and monetary income plus imputed rent. There is a noticeable difference only for the first 10%: the individuals who are “house-rich but cash-poor” and therefore

are subject to the increase in the property tax, belong only to the first decile of monetary income, therefore increasing the incidence of the package on it. In both cases, the policy changes appear to be progressive.

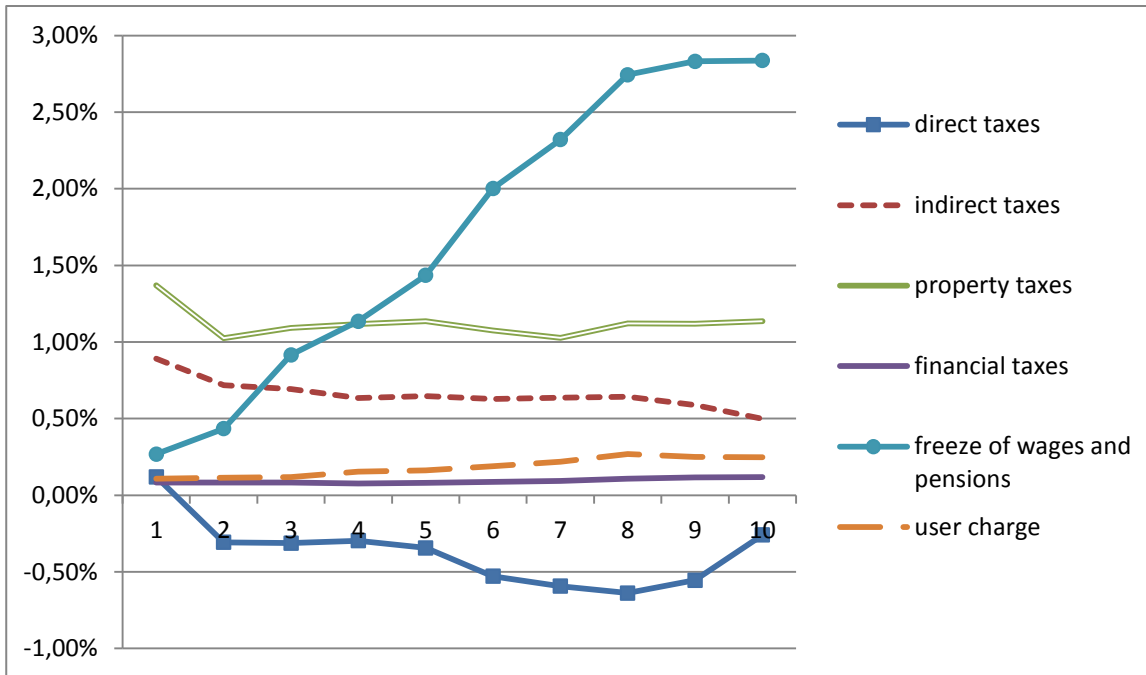
Fig. 3.2 % change in equivalent disposable monetary income for individuals after the austerity package



Note: personal distribution

We can now “open” the package and gauge the separate effects on monetary income of the various austerity measures on all individuals (Fig. 3.3). The algebraic sum of these curves provides the left bars of Fig. 3.2. The dominant impact is produced by the freezing of pensions and public sector wages, which is also particularly progressive. Its intensity is due to the length of the period in which public wages have been kept constant (5 years in 2014), therefore producing a cumulative effect over time. Had we chosen 2012 as the reference year, its impact would have been nearly halved. Then come the change in property taxation, which is slightly regressive due to the ordering of individuals in terms of monetary income, as already explained. The increase in indirect taxation is clearly regressive, while that of user charge on public health goods and services is progressive. Changes in direct taxes have a negative impact, i.e. they increase disposable income, because in the counterfactual scenario the incomes of all public servants and of many pensioners are higher than in the post-austerity scenario, so that in the latter situation their personal income tax is also lower. This effect, backed up also by the reduction in tax allowances for dependent workers and children, is stronger than the increase in social security contributions for the self-employed and in local surcharges.

Fig. 3.3 Average incidence on equivalent monetary income of the austerity measures



Note: personal distribution, deciles of equivalent monetary income

3.3 The effects by socio-demographic groups

The average loss is lower than 3.5% of income for persons aged less than 40 years (Tab. 3.1), while it is around 4.5% or higher for those with more than 50 years of age. This redistribution by age groups is confirmed by the effects across households of different dimension: smaller households (in general the elderly) contribute more than those with three or more members. The clearest redistributive effect can be found among the different professional conditions of the household head: the groups more hardly hit by the policy changes are those of public employees and of pensioners, while the incidence is lower than the average for households of dependent workers in the private sector. While the reason for the strong penalty on public employees is clear, pensioners suffered from both the de-indexation of higher pensions and from the reintroduction of the property tax on owner-occupied dwellings, as well as from the strong increase in the property tax rate on other buildings. The share of households that own their dwellings tends to rise with age, and the ratio between the value of real wealth and disposable income is also higher for the elderly. Income losses are greater in the central regions for two possible reasons: the high cadastral values in Rome and the concentration of many public employees in the capital.

Tab. 3.1 Change in disposable income by various characteristics

Age		Area		Number of household members		Condition of the head	
<=17	-3.15%	North West	-3.63%	1	-4.21%	Private employee	-2.53%
18-29	-3.31%	North East	-3.62%	2	-4.35%	Public employee	-7.03%
30-39	-3.01%	Centre	-4.23%	3	-3.63%	Self-employed	-3.52%
40-49	-3.58%	South	-3.74%	4	-3.41%	Pensioner	-4.81%
50-59	-4.29%	Islands	-3.68%	5	-3.36%	Other	-2.99%
60-69	-4.79%			>=6	-2.84%		
>=70	-4.56%						
Total	-3.78%	Total	-3.78%	Total	-3.78%	Total	-3.78%

Note: to each individual we have attributed the equivalised monetary income of the household of reference

4. Discussion

The necessity to consolidate the public budget after the crisis that erupted in international financial markets in 2011 prompted the government to introduce a severe set of policy measures, consisting mainly of new or higher taxes, and in part also in lower public expenditure. In the first years after the crisis the substantial lack of countercyclical initiatives from the government was motivated by the high level of public debt. The automatic increase in unemployment benefits and the extensions of the Cassa integrazione guadagni to new industrial sectors and firms contributed to sustain the disposable incomes of many Italian households, which actually fell less than gdp per capita. After 2011, however, personal incomes collapsed under the combined blows of a new recession and of the budget cuts introduced to improve the deficit.

The hasty political process that led to three austerity packages during 2011 and to many other fiscal consolidation measures spread over time was dominated by the anxiety to regain credibility with European partners and international investors, but led to a set of decisions that, ex post, can at least partly be rationalised as being consistent both with the general debate over the policy options open to the government and to the dynamics of the distribution of income before the crisis.

As for the first aspect, the economic problems of Italy date back to well before 2008. The great recession arrived after at least a decade of lack of growth in incomes. This long stagnation brought about an intense debate on how to find again the way towards growth. The main recommendations, coming not only from scholars but also from international institutions and the EU, called for greater flexibility in the labour market, higher retirement ages, the reduction of non-productive public expenditure and of bureaucratic obstacles on business activity, and lower taxes on firms and labour to sustain competitiveness and increase the very low employment rate. Many recommended also a form of internal devaluation, by shifting the tax burden away from labour towards consumption and wealth. After the financial crisis broke out, the governments that followed did not have sufficient political strength to cut public expenditure, apart from the nominal increase in public wages and higher pensions, so the only escape route was to increase the tax burden. At least, they actually followed some of these pressures, and tried a modest reduction of the personal income tax, which is mainly paid by dependent workers, and of Irap, a tax on the value added of firms, and increased taxes on both consumption and financial and real

assets. This shift has been only partial, because the tax burden on gdp increased to record height, but at least paved the way for future changes in the right direction. The Renzi government, in the first months of 2014, seems to share this approach.

The lengthy stagnation of income and the crisis have had very similar distributive effects: even before the crisis, the dependent workers of the private sector lost ground in relative terms, to the advantage of pensioners, public sector workers and the self-employed. The crisis worsened again the conditions of the first category, and resulted in a fall also for the incomes of the self-employed. The elderly and the public employees, on the other hand, were relatively shielded from the recession, because their incomes are guaranteed by a set of long-standing formalised rules of redistribution. The worsening of the poverty and inequality indexes induced by the great recession was slow in the first few years, but became more and more clear after the new dip in gdp in 2012. The structural deficiencies of the Italian tax-benefit system, in particular the lack of a safety-net scheme and an excessive reliance on forms of family-based transfers among generations, could not avoid a marked deterioration of the conditions of the poorest part of the population.

When the government had to decide who should pay the greater price of fiscal consolidation, it seems to have imposed the heavier burden just on those groups that have been less affected by the recession, i.e. pensioners and public employees.⁷ In this sense, the income distribution that emerges as a consequence of the actions of both the crisis and the state is less unequal than the distribution that would have been produced by the crisis alone. The adjustment measures reduced the incomes of all Italian households, but they muted the increase in inequality produced by the recession, although the offset was only partial. This chapter has not considered other possible consequences of the government choices, for example the further reduction in gdp caused by the austerity measures through a fall in demand, which probably had a more pronounced negative effect on low-income families (IMF, 2014), and it is worrying that these policy choices did not spare even the poorest households (e.g., through the increase in indirect taxes), but it is interesting that most of the resources have been collected from the groups that were relatively more protected from the recession.

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