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 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 industry,
- 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
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
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 opportunity.
- 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/opportunity
- Electoral politics does not understand the crisis, inward/local/defensive behaviour
- **Need for a new politics, democracy**