



BANCA D'ITALIA
EUROSISTEMA

Recent Developments of Income Inequality in Italy: Differences across age classes

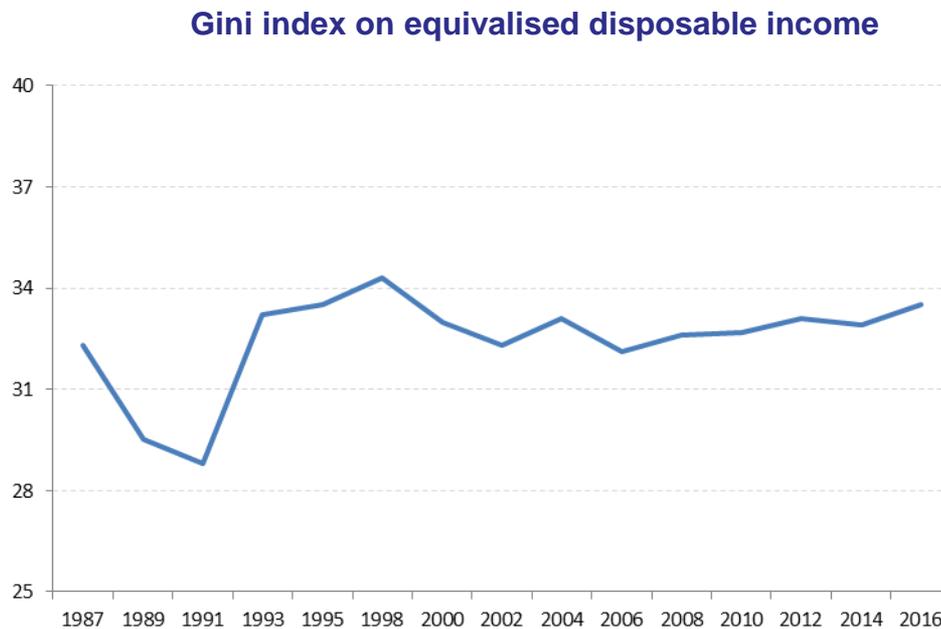
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Overview: trends in income inequality in Italy

- The Great Recession did not significantly worsen the level of inequality in Italy.
- We are slowly going back to '90s levels of income inequality.

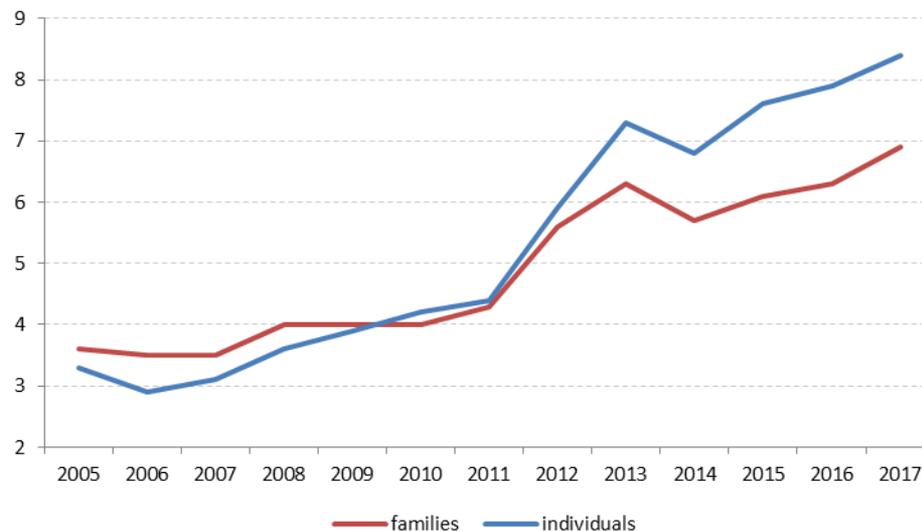


Source: *Survey on Household Income and Wealth*, Bank of Italy.

Overview: trends in poverty in Italy

- However, the economic crisis did not come without a cost. People became poorer: the income distribution shifted towards the left, such that all individuals were poorer (Brandolini, 2014).

Share of families and individuals living in *absolute* poverty



Source: *Indagine sulle spese delle famiglie*, Istat.

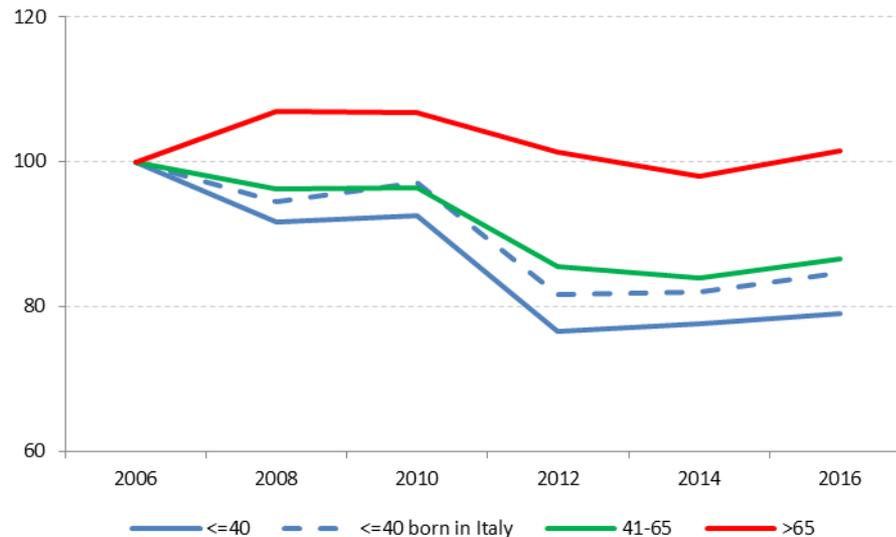
Italy in comparison with the EU

- Among EU countries, Italy is highly unequal: in 2016 the Gini index of equivalised disposable income was higher than the EU28 average (**33.1** and **30.8%**, respectively; Eurostat data).
- The risk of poverty or social exclusion was **30.0 %** among Italians, while **23.5%** for Europeans in 2016.
- Looking at market income (*before redistribution* through the tax-transfer system), the Gini index in Italy is lower than the EU28 average (**49.4** vs. **51.6%**).
- Our welfare system seems to be not particularly redistributive, especially for young families.
- The Great Recession had different impact across age classes.

Trends in real equivalized income across age classes

- In 2006-2016, real equivalised income fell by **20.9%** for persons living in 'young' households (head of household ≤ 40 y.o.).
- Real equiv. income of persons in 'old' households (head of household 65+ y.o.) rose by **1.6%**.

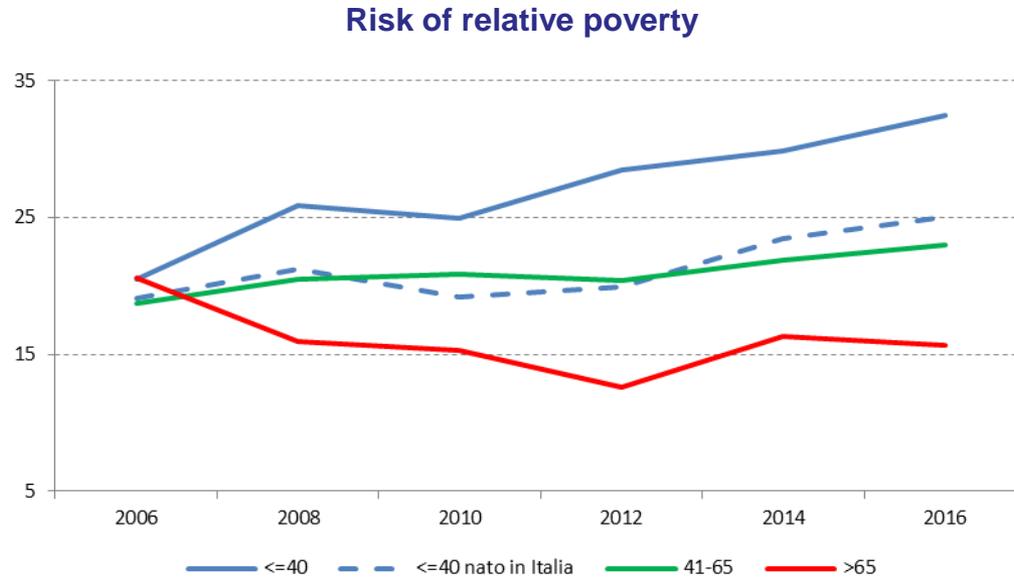
Equivalised household income (2006=100)



Source: *Survey on Household Income and Wealth*, Bank of Italy.

Younger families are poorer

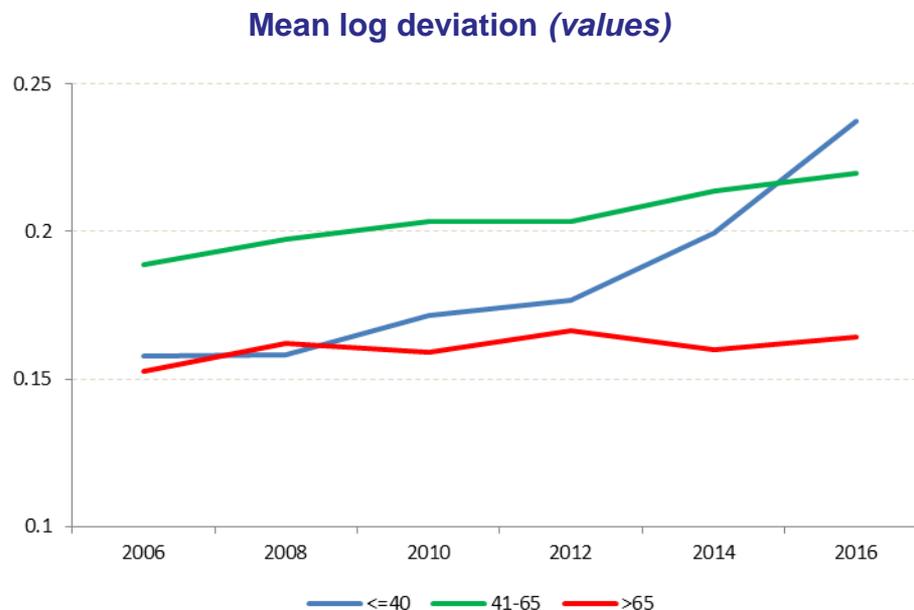
- In 2006 the risk of poverty was similar for people living in these two types of households.



Source: *Survey on Household Income and Wealth*, Bank of Italy.

- In 10 years, the risk of poverty rose for persons belonging to young households, such that in 2016 it is twice that for those living in old households (at 32.5 and 15.7 per cent respectively).

Inequality within age classes increased, especially among younger individuals



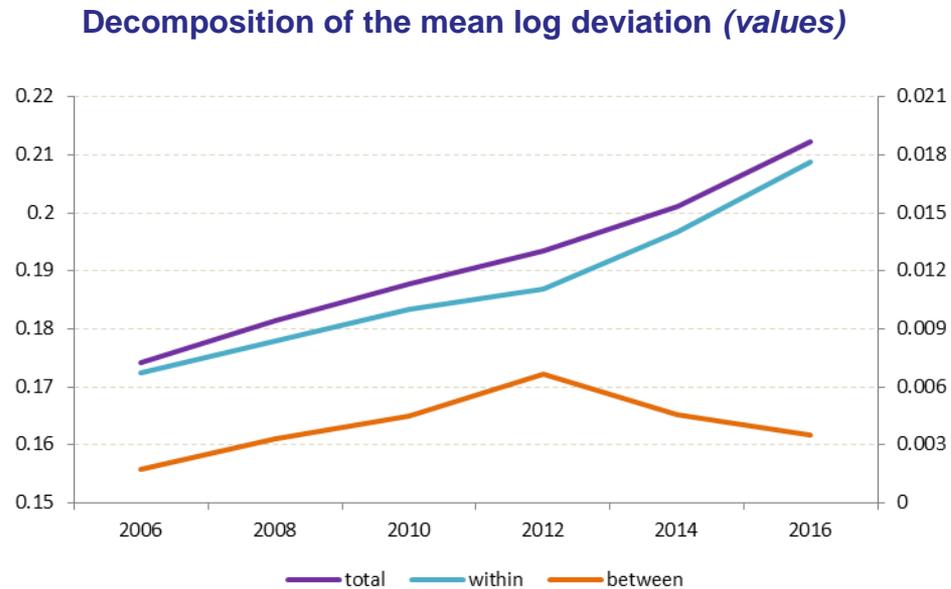
Source: *Survey on Household Income and Wealth*, Bank of Italy.

- The poorer conditions of young individuals are also associated to higher levels of income inequality within that age class. It dramatically increased since 2012.
- Income inequality among individuals living in old families is significantly lower and rather stable.

Possible reasons

- These developments reflect:
 - the higher cyclical of employment income than pension income
 - composition effects, due to the growing percentage among young households of foreign-born, whose levels of income are lower on average
 - the characteristics of the Italian welfare system, historically more generous when it comes to pensions and less so in support of households in financial distress.
- Since January 2018, a minimum income scheme has been implemented in Italy (*Reddito di inclusione, Rei*).
- New proposal by the newly elected Government, *Reddito di cittadinanza*. No much details about it, it would figure out as a minimum income scheme for families, similarly to Rei.

Decomposition of inequality levels in the *between* and the *within* components



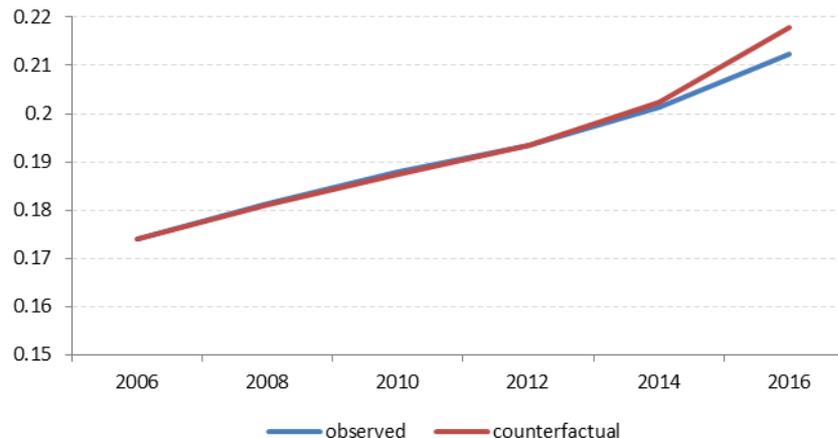
Source: *Survey on Household Income and Wealth*, Bank of Italy.

- Between component: distance in average equivalised income across age classes
- Within component: weighted average of within group dispersion.
- The between component shows a cyclical pattern; the within component largely explains the overall increase in inequality.

The role of the age structure

- The rise in inequality was partly mitigated by changes that occurred during the same period in the population's age structure.
- Between 2006-2016, the share of individuals living in young households fell by **10 pp.**, while those belonging to old households rose by around **5 pp.**
- These developments reflect the ageing of the population and the decision by more and more young persons to postpone new households formation
- If these changes are cancelled out – we keep population shares at 2006 level – the rise in inequality is would have been greater.

Observed and counterfactual levels of income inequality
mean log deviation (*values*)



Source: *Survey on Household Income and Wealth*, Bank of Italy.

Summing up

- Overall, income inequality levels remained rather stable during the period 2006-2016, but poverty rates dramatically increased.
- The costs of the economic crisis have been mainly borne by younger households.
- Changes in household formation and composition may have played a role in accommodating negative income shocks.