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# THE TRUE COST OF AUSTERITY AND INEQUALITY

## Italy Case Study

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### Introduction

Italy was already in a fragile position when the sovereign debt crisis erupted across the Eurozone in 2010; having already suffered from low or static economic growth since 2008. As a result, when the crisis struck, Italy felt the effects acutely.<sup>1</sup> The earlier lack of growth was the result of a range of different factors: a lack of effective policies to address the development gap between northern and southern Italy; rampant corruption and the ongoing influence of organized crime on the economy; the failure to tackle fiscal evasion and avoidance; and the lack of co-ordinated investment in vital areas, such as tourism and support for small and medium enterprises (SMEs).

### The scale of the public debt and deficit

Italy's national debt as a percentage of GDP has increased steadily over the last five years from 103 per cent in 2007 to nearly 127 per cent in 2012. Italy sought to finance its national debt externally, opening itself up to a wave of financial speculation in 2010 and 2011. The 2008 global financial crisis had, in itself, only a minor direct effect on Italy's financial system. This is largely thanks to the absence of connections between Italian banks and the international debt market. However, the financial crisis indirectly caused a lack of confidence between Italian banking institutions, regarding their mutual financial health, and worries about the capacity of Italian SMEs to resist economic shocks. This resulted in a freeze in bank credit pushing the country into recession.

Between 2008 and 2012, there was an increase in bankruptcies and other types of insolvency proceedings, as well as an increase in voluntary liquidations.<sup>2</sup> All told, a total of about 104,000 companies folded in 2012, 2.2 per cent more than in the previous year. Since 2009, over 45,000 companies have defaulted.

## **Austerity measures**

Being the third largest economy in the Eurozone, Italy has been described as 'too big to fail, too big to bail'.<sup>3</sup> The possibility of Italy requesting an emergency rescue loan, in order to weather the sovereign debt crisis, was often seen as the 'point of no return' for the stability of the Eurozone as a whole, as a result of the damage this would do in terms of market confidence. In an effort to avoid having to request international rescue loans, and to achieve a balanced budget in 2013, the then technocrat government, led by Mario Monti and supported by a large, bipartisan majority, increased taxes on households to 44.7 per cent of gross income. Among the new taxes, VAT increased to 21 per cent, up one per cent, and a property tax on houses was re-introduced. The latter was particularly unwelcome, as most Italians own a house bought with a long-term mortgage, but do not necessarily have a monthly income/pension to pay a tax associated with the property. The government has also made deep cuts in social spending, at the national and local level, impacting on the ability of families to cope with the continuing recession.

In 2012, the government undertook an ambitious reform of the pensions system, increasing the retirement age for women and men. As a result, people who were due to retire from work in 2011 will now be retiring in 2014/15. This reform has had a severe impact on almost 140,000 people who had already opted to take retirement and who found themselves suddenly without a salary or a pension.<sup>4</sup> As of August 2013, the concerns of this group (known as the 'esodati') have not yet been addressed.

## **How austerity measures are impacting the poorest**

The economic recession has increased the level of inequality across Italy. The top 20 per cent of households received nearly 40 per cent of all income, while the poorest 20 per cent receive only eight per cent. Over the past ten years, average net financial wealth has reduced by 40.5 per cent (from €26,000 to €15,600 per family).<sup>5</sup>

According to Bankitalia, income inequality (measured as a ratio of the incomes of the top and bottom 20 per cent of the population) decreased in the years immediately prior to the onset of the 2008 global crisis.<sup>6</sup> However, in the three years of recession that followed, the rapidly increasing rate of unemployment caused the ratio to rise from 5:1 in 2008 to 5:6 in 2011, with a negative outlook according to preliminary data from 2012. The share of wealth for those earning between €50,000 and €500,000 (including property holdings) has declined from 66.4 per cent to 48.3 per cent.

## The experience of poverty

GDP in Italy fell by 2.4 per cent in 2011, and 56 per cent of employees and 70 per cent of retirees declared an income of less than €20,000 per year. In 2012, 15.8 per cent of people were living in relative poverty<sup>7</sup> (up from 13.6 per cent in 2008) and eight per cent lived in absolute poverty<sup>8</sup> (rising 4.9 per cent from 2008). Since 2010, household consumption has decreased by 4.3 per cent returning to levels last seen in 1997.<sup>9</sup> Italians have always been good savers and the level of private savings was seen as a macroeconomic asset that was able to counterbalance the level of state deficit, but levels of savings dropped from 12 per cent in 2008 to eight per cent in 2012.<sup>10</sup>

By 2012, the majority of Italian households, 83 per cent, were basing their food shopping around special offers and less expensive foods, while 2.7 million Italians have chosen to start growing vegetables for their own consumption. 65.8 per cent of Italians have reduced their travel routines to save money on gasoline and 42 per cent have stopped travelling altogether. Up to 2.5 million households have sold gold or other precious objects in order to supplement their income; the main streets of many Italian cities are lined with second-hand gold 'buy and sell' shops, often alongside money lending agencies and job agencies offering temporary work.

Between 2011 and 2012, relative poverty in Italy increased, particularly among families with one or more children under the age of 18, from 16.2 per cent to 20.1 per cent.<sup>11</sup> This data matches the research findings of the UNICEF Innocenti Research Centre,<sup>12</sup> which showed how, in 2012, 15.9 per cent of Italians under the age of 17 were living in relative poverty, with a child poverty rate 4.4 per cent higher than the poverty rate of the general population. According to UNICEF, in 2012, Italy ranked 32<sup>nd</sup> out of 35 OECD countries in terms of child poverty.

Absolute poverty has also risen among households headed by an employee or a manager (from 4.4 to 6.5 per cent). For those households headed by a person looking for work, the rate of relative poverty has increased from 27.8 to 35.6 per cent.

## Levels of inequality

Italy is already a country affected by high rates of inequality, where five per cent of the richest taxpayers own 22.9 per cent of the total income, equal to that of the poorest 55 per cent of taxpayers.<sup>13</sup> The austerity measures have far from reversed this trend. In fact, top earners in Italy were less affected by austerity measures, such as the house property tax (IMU) or the 1 per cent VAT increase in 2012. In fact, IMU was calculated on the value of the house, regardless of the current personal income of the individual tax payer; as a result, middle-class families or retirees could expect to pay as much as a top manager still in work. Similarly, the increase of the VAT had a greater impact on poorer people and on economic activities rather than on wealthy individuals. Moreover, low-income groups have also been affected by cuts in public spending.

## Unemployment and the labour market

Between 2011 and 2012, the unemployment rate increased from 8.4 per cent to 10.7 per cent.<sup>14</sup> Unemployment has increased across Italy, but especially in southern Italy where it peaked at 17.2 per cent in 2012.<sup>15</sup>

The data on youth unemployment are particularly relevant: data from the first part of 2013 shows that unemployment amongst 15-24 years olds reached 41.9 per cent.<sup>16</sup> At the same time, full-time employment dropped by 2.2 per cent and part-time employment increased; nearly 60 per cent of the new part-time employees were people who had lost their previous employment in the same year. Long-term unemployment (12 months or more) has also risen.

Given the structure of Italian welfare, job loss subsidies are not guaranteed, since these are provided after a long-term open contract, but not in case of temporary contracts. In 2012, nearly one million households were without any income. According to ISTAT, their number has more than doubled since 2007 (up to 466,000 households) and increased by 24.3 per cent, equivalent to 233,000, between 2011 and 2012.<sup>17</sup> Most of these families rely on a pension given to one member, or on temporary work in the informal economy.

## Impact on services

Over the past five years the state has cut the financial allowances of the main national funds for social interventions by 75 per cent.<sup>18</sup> The Fund for Social Policies – the main fund providing assistance to individuals and families – went from having a €923m budget in 2008 to €69m in 2012. The Fund for Long-term Care, whose budget was €400m in 2010, was eliminated by the government in 2011 and has not been refinanced by its successors. Further cuts have been made to the Fund for Family Policies (from €185.3m to €31m) and from the Fund for Youth Policies (from €94.1m to €8.18m). At the local level, Italian municipalities decreased their social spending in 2012 by 3.6 per cent. Adding to the rising unemployment, these cuts to social expenditures and essential services are reducing the safety net for the most vulnerable groups, thus contributing to the increase in poverty and inequality.

## Health care services

In 2000, according to WHO statistics, Italy ranked 2<sup>nd</sup> in the world for health coverage, yet the economic crisis has also put at risk health care services which were once one of the best parts of the Italian welfare system. Health spending grew by an average of six per cent per year between 2000 and 2007, but only 2.3 per cent between 2008 and 2010.<sup>19</sup> For the first time, in 2013 the National Health Fund decreased (from €107.8m to €106.8m). As a result all Italian regions have had to cut their health spending by five per cent: while some regions have been able to balance their expenses, most have been forced to increase health care user fees or cut services, such as residential health care for the elderly or people with major illnesses, palliative care, vaccination programmes, and screening programmes.

Francesco (60): *'I was an engineer, but I lost my job. My income had been quite high on the previous year [€38,000 per year, editor's note] so I could not be exempted from paying a fee for health services. But at the same time, I could not pay the €750 fee needed for dental care. I tried to get a loan from a bank: no way. Without my teeth, I cannot even do job interviews.'*<sup>20</sup>

Francesco is not alone. In 2011, more than nine million people declared that they could not access some health services for economic reasons;<sup>21</sup> of that 2.4 million are over 65, and five million are couples with children. This is creating a vicious circle: in 2012 Italian regions earned €549m less from health care fees than expected; approximately 1.8 million people decided not to access health care services because they could not afford to pay the fees and were not exempted from them.<sup>22</sup>

Things are not set to improve: from 2014, Italian regions will be asked to increase financing of health services with revenues coming from health user fees up from €2bn to €4.8bn. On the level of current spending, by 2015 there will be an estimated gap of €17bn between financing needs of the national health services and the public resources available to cover it. This means that fees will increase – at a time when the population increasingly cannot afford to pay them.

## Conclusion

In Italy, austerity measures have so far failed to generate economic growth or reduce debt, and continue to exact high social costs. Like other Eurozone members, Italy needs to:

- find a viable solution to restructure its debt;
- adopt a stimulus programme to promote investments and capital spending to generate growth and employment, particularly for young people, for example in the green economy or in the tourism sector;
- develop a plan to ensure the provision of public, universal, and high-quality education, and to protect the Italian health care system.

Italy can and should collect the financial resources needed to implement these policies by tackling seriously tax avoidance and evasion. Italy is a country where, in 2011, only one taxpayer out of 10 declared more than €34,600 of income and only 28,000 taxpayers out of 41.3 million declared more than €300,000 of income per year;<sup>23</sup> and where, for the tax authority, those in employment or retired are considered richer than entrepreneurs.<sup>24</sup> Some timid steps have been put in place since 2012,<sup>25</sup> but more comprehensive action is needed. Addressing the non-observed economy - estimated to be equal to 21.4 per cent of Italy GDP – or €346bn per year – is also crucial to tackle the influence of Italian criminal organizations on economic and social life.

Italy might be 'too big to fail', but it can't be bailed with austerity measures, as an increasing number of Italians cannot cope with their impact anymore.

# NOTES

All URLs last accessed September 2013, unless otherwise stated

- <sup>1</sup> See Italian Institute of Statistics (ISTAT) reports for 2008-2012, <http://www3.istat.it/>
- <sup>2</sup> Cerved Group (2013) 'Monitor of Bankruptcies, Insolvency, Proceedings and Business Closures, Fourth Quarter 2012', [http://www.cervedgroup.com/c/document\\_library/get\\_file?uuid=4c41aaa1-9d49-41be-943a-dd7d252a9561&groupId=20536](http://www.cervedgroup.com/c/document_library/get_file?uuid=4c41aaa1-9d49-41be-943a-dd7d252a9561&groupId=20536)
- <sup>3</sup> See D. J. Elliot (2011) 'Italy: Definitely too big to fail, maybe too big to bail', CNN Money, [http://money.cnn.com/2011/11/09/news/international/italy\\_crisis\\_bail/index.htm](http://money.cnn.com/2011/11/09/news/international/italy_crisis_bail/index.htm)
- <sup>4</sup> Data from the National Institute for Social Security (INPS), <http://www.inps.it/portale/default.aspx>
- <sup>5</sup> ISTAT, 'Noi, Italia' report, <http://noi-italia.istat.it/>
- <sup>6</sup> G. d'Alessio (2012) 'Wealth and Inequality in Italy', Occasional Paper #115, Bank of Italy, [http://www.bancaditalia.it/pubblicazioni/econo/quest\\_ecofin\\_2/QF\\_115](http://www.bancaditalia.it/pubblicazioni/econo/quest_ecofin_2/QF_115)
- <sup>7</sup> ISTAT, 'Noi, Italia', *op. cit.* The relative poverty threshold for a family of two is estimated at around €1,000 per month while the absolute poverty threshold is estimated €989 in the north and €704 in the south of Italy
- <sup>8</sup> ISTAT (2013) 'La Povertà In Italia', <http://www.istat.it/it/archivio/95778>
- <sup>9</sup> CENSIS (2012) '46<sup>th</sup> Rapporto sulla situazione sociale del Paese 2012' [46th Report on the social situation of the country], [http://www.censis.it/10?shadow\\_ricerca=118876](http://www.censis.it/10?shadow_ricerca=118876)
- <sup>10</sup> *ibid.*
- <sup>11</sup> ISTAT (2013) *op. cit.*
- <sup>12</sup> P. Adamson (2012) 'Measuring Child Poverty: New league tables of child poverty in the world's rich countries', Report Card 10, Centro di ricerca Innocenti dell'UNICEF, <http://www.unicef-irc.org/publications/660>
- <sup>13</sup> Data from INPS
- <sup>14</sup> ISTAT, 'Noi, Italia', *op. cit.*
- <sup>15</sup> 'Unemployment record 10.7% in 2012; 17.2% in southern Italy', Sud Italia News, 1 March 2013, <http://www.suditalianews.com/2013/03/01/unemployment-record-10-7-in-2012-17-2-in-southern-italy/?lang=en>
- <sup>16</sup> Data from ISTAT, reported in 'Disoccupazione, nuovo record: è al 12,8%; Tra i giovani attivi senza lavoro il 40%', Il Corriere della Sera, 13 May 2013, [http://www.corriere.it/economia/13\\_maggio\\_31/istat-disoccupazione-record\\_f12a06c6-c9c8-11e2-983e-24267407b94e.shtml](http://www.corriere.it/economia/13_maggio_31/istat-disoccupazione-record_f12a06c6-c9c8-11e2-983e-24267407b94e.shtml)
- <sup>17</sup> ISTAT, 'Noi, Italia', *op. cit.*
- <sup>18</sup> Italian Retired People Trade Union (SPI CGIL) 'Allarme welfare. In 5 anni -75% risorse destinate a politiche sociali', <http://www.spi.cgil.it/SideMenu/Informazione/Notizie/ServiziSociali/2013/Allarmewelfare/tabid/2980/Default.aspx>
- <sup>19</sup> Rbm Salute and CENSIS (2012) 'Il ruolo della sanità integrativa nel Servizio sanitario nazionale' [The role of integrative health in the national health service], [http://www.osservatorionazionalefamiglie.it/images/altrepubb/documenti/2012/il\\_ruolo\\_della\\_sanit\\_integrativa\\_nel\\_servizio\\_sanitario\\_nazionale\\_-\\_sintesi\\_dei\\_risultati.pdf](http://www.osservatorionazionalefamiglie.it/images/altrepubb/documenti/2012/il_ruolo_della_sanit_integrativa_nel_servizio_sanitario_nazionale_-_sintesi_dei_risultati.pdf)
- <sup>20</sup> M. Bocci and F. Tonacci (2013) 'Due milioni in fuga dalle cure non hanno i soldi per il ticket' [Two million fleeing from care do not have the money for the ticket], La Repubblica, 25 April 2013, [http://inchieste.repubblica.it/it/repubblica/rep-it/inchiesta-italiana/2013/04/25/news/quattro\\_milioni\\_in\\_fuga\\_dalle\\_cure\\_non\\_hanno\\_pi\\_i\\_soldi\\_per\\_il\\_ticket-57450028/](http://inchieste.repubblica.it/it/repubblica/rep-it/inchiesta-italiana/2013/04/25/news/quattro_milioni_in_fuga_dalle_cure_non_hanno_pi_i_soldi_per_il_ticket-57450028/)
- <sup>21</sup> Rbm Salute-Censis (2012) *op. cit.*
- <sup>22</sup> *ibid.*
- <sup>23</sup> 'L'analisi delle dichiarazioni dei redditi 2011' [Analysis of 2011 tax returns], Il Sole 24 Ore, 30 March 2012, <http://www.ilsole24ore.com/art/notizie/2012-03-30/analisi-dichiarazioni-redditi-2011-133701.shtml?uuid=AbIUnKGF>
- <sup>24</sup> *ibid.* The average income of those in employment was €20,020 and €15,520 for retired people, while entrepreneurs declared an average income of €18,844.
- <sup>25</sup> In 2012, the government introduced an increase in the rate of the tax on capital gains from 12.5 to 20 per cent. This was meant as an effort to increase taxation on financial gains, typically owned by top earners, which is quite low when compared with taxation on labour and economic activities. Also, the Italian government adopted in 2012 a national financial transaction tax (FTT) – in force since March 2013 – and supported the enhanced co-operation procedure to adopt it at the EU level.

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