The economic and social situation in Italy

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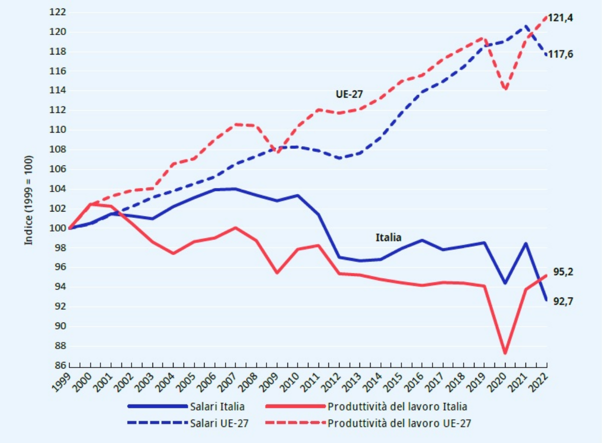
"War, the climate catastrophe and the crisis of social reproduction: how should the EU cope with the polycrisis?"

Panel discussion: *The political and economic situation in Italy*

Outline

Real wages and productivity in Italy and EU (1999-2022)



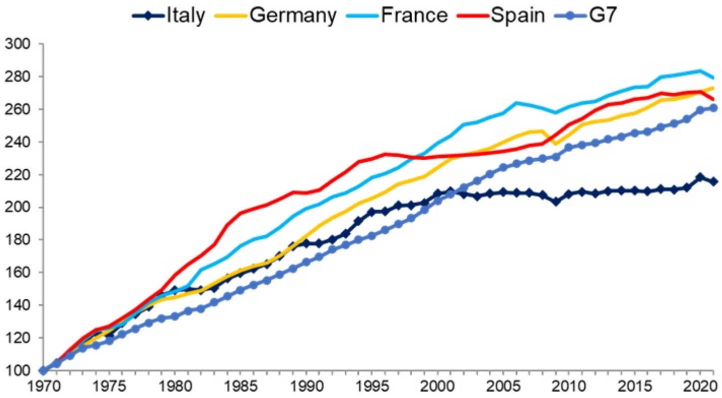
Source: ILO, Global Wage Report 2022-2023

- During 1999-2022, labour prod of the EU-27 countries grew by 21.5 % and real wage grew by 17.6 %
  → **over the same period, both Italian labour productivity and real wages declined, particularly during 2011-19**

  → The gap in productivity compared to EU due to: (i) high concentration of low value-added labour; (ii) precariousness of the labour market; (iii) low investment in workforce training; (iv) the North-South gap

The long term path of Italian labour productivity

Figure: Hourly productivity (GDP per hour worked) in Italy, France, Germany, and Spain and the G7 countries - Years 1970-2021 (USD, constant prices, 2015 PPPs; index numbers, base 1970=100)

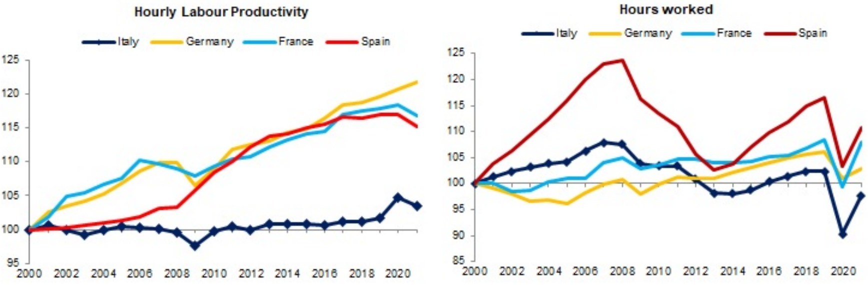


Source: OECD, National Accounts (Cirillo, Lucchese, 2022)

- Until 1980: Italian productivity growth in line with other European economies;
- Between 1980 and 2000: Italy loses ground with respect to the (European) productivity frontier, but continues to improve its productivity;
- Since 2000: slowdown in labour productivity growth.

The productivity gap as of 2000

Figure: Labour productivity (value added per hour worked) in Italy, France, Germany and Spain - 2000-2021 (Eurostat, 2000=100)

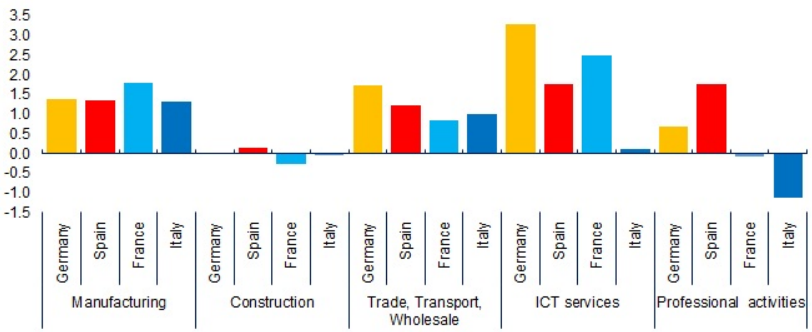


(Cirillo, Lucchese, 2022)

- Slowing-down of labour productivity over the past two decades in most advanced economies, stagnant dynamic in Italy
- Peculiar feature of the current phase of contemporary capitalism, accentuated by the 2008 crisis

Sectoral heterogeneity: manufacturing vs services

Figure: Trends in hourly productivity (volume value added per hour worked) in Italy, France, Germany, and Spain by sector of economic activity - Years 2010-2019 (average annual percentage changes)



Source: Eurostat, National Accounts (Cirillo, Lucchese, 2022)

- In manufacturing, Italy's performance is closer to that of other countries: effect of the ability of this sector to realize productivity gains;
- **ICT services and professional support activities show worse results compared to manufacturing: (i) low competition?; (ii) low integration with manufacturing activities?**

What long-term explanations?

(i) **'Unwillingness to reform'** –> "poor reform effort": Italy has not implemented sufficient structural reforms, particularly in the labor market, insufficient liberalization (Daveri & Tabellini 2000; Alesina & Giavazzi 2006, Alesina et al, 2008, Gurría, 2012, OECD 2012);

–> Unconvincing explanation: over the past 30 years, multiple reforms on tax policy, labor markets, competition;

(ii) **'Constraints in the EMU integration process'**
–> difficulty generating growth in an economic and monetary union with stringent fiscal rules (Baccaro, Blyth and Pontusson, 2022);
–> fiscal austerity, wage moderation, lack of technological competitiveness, weakening productive capacity of Italian firms (Storm, 2019);

(iii) **'Firm-level perspective'** –> i.e., small size of enterprises (Bugamelli et al., 2018; Campanella e Federico, 2020); family-management; lack of *organizational capabilities* and low degree of technological-organizational complexity (Costa et al., 2021)

'Productivity slowdown' in Italy: a complex set of interactions

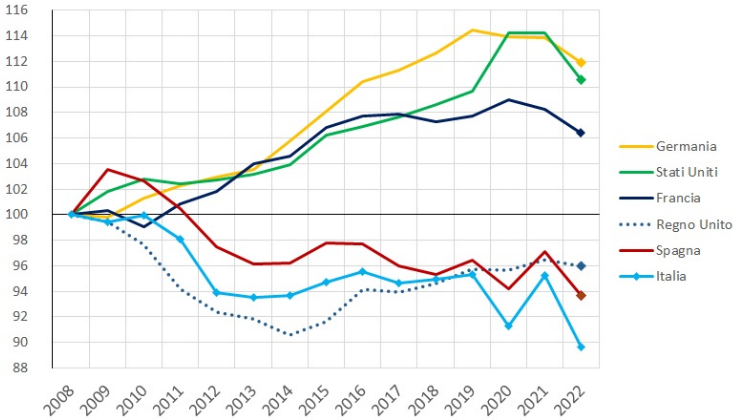
- Counterproductive set of reforms: external constraints, demand compression and structural reforms;
- Contraction of public and private investment (increased uncertainty);
- Liberalization of the labor market: increased precarious and temporary employment; reduced human capital formation;
- Productivity specialization in low value-added sectors; technological dependence; decline of industry and technological capabilities;

–> growing divide within Europe between a "core" around Germany and a weakening "periphery" (Stöllinger et al. 2013; Simonazzi et al. 2013; Pianta 2014; Cirillo and Guarascio 2015; Lucchese et al., 2016);

–> as of 2000 Italy is recording low performance in the key sectors of ICT, but also automotive, electronics, etc. (Lucchese et al., 2016; Pianta et al., 2020).

The fall of wages

Figure: Average real wage index in Italy, other European economies and the United States. Years 2008-2022 (Index, annual data, base 2008=100)

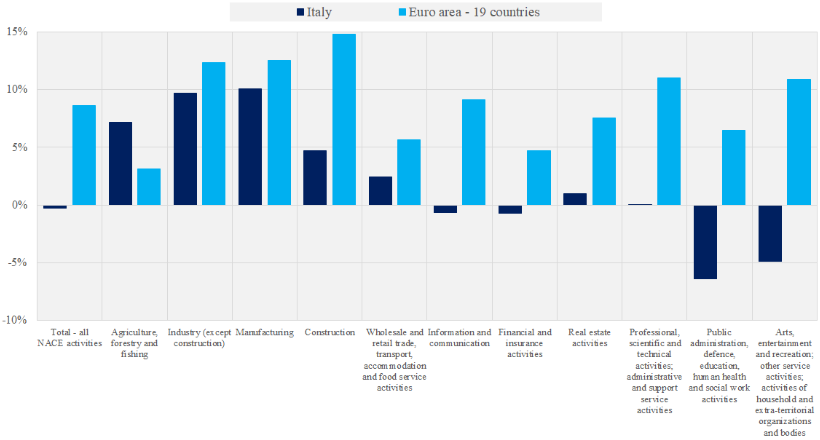


Source: Own elaboration on data Global Wage Report 2022-2023 - ILO Publications

- **A long term dynamics** (-12 p.p. 2008-2022 in Southern Italy real gross wages per employee)
- **Inflation**: hits hard in late 2021 and early 2022
- **In Q1 of 2023, real hourly wages are 6% lower than in Q1 of 2019**
- In the South, erosion of wage purchasing power even more intense: -8.4% (Q4/2019 and Q4/2022)

The fall of wages across sectors

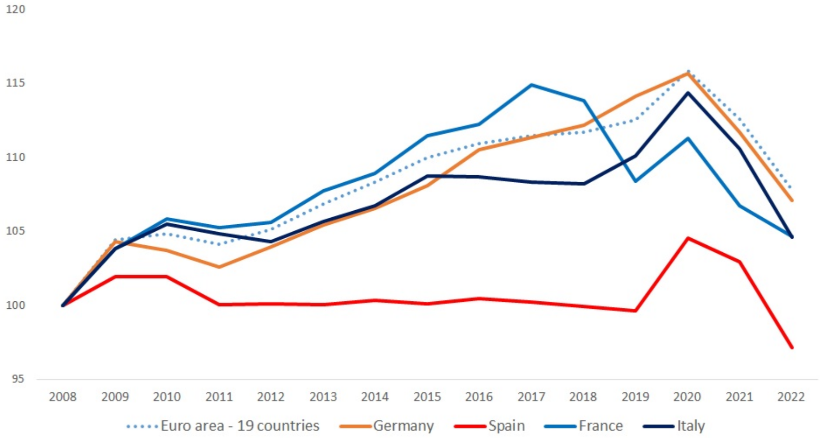
Figure: Real hourly wages by sector (employees), deflated by HICP. % changes from 2008 to 2019



Source: Own elaboration on National Accounts Data, Eurostat (Cirillo, Evangelista, Lucchese, 2023)

Heterogeneity of wages across sectors

Figure: Real hourly wages in the manufacturing sector (annual data, 2008=100), deflated by HICP. Years 2008-2022

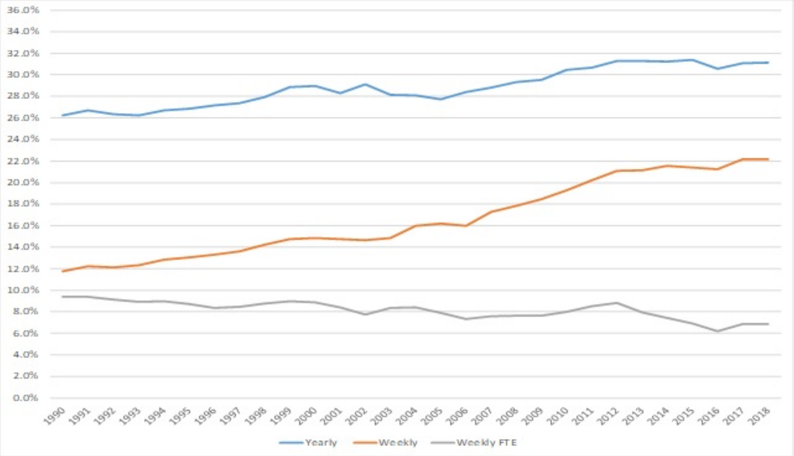


Source: Own elaboration on National Accounts Data, Eurostat (Cirillo, Evangelista, Lucchese, 2023)

- **Manufacturing wage dynamics 'fairly' in line with EU, although below EU average and Germany**

Incidence of low-wage workers

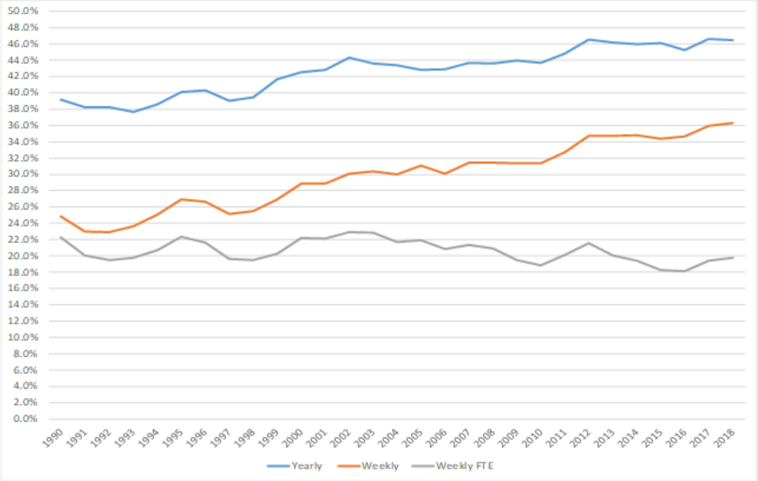
Figure: Share of private sector employees earning less than 60 % of median wage



Source: Elaboration on INPS-LOSAI data (Bavaro e Raitano, 2023)

- **The increase in the share of low-paid workers is attributable to the reduction in hours worked associated with the increasing prevalence of part-time contracts**
- For the year 2021: EUR 12,093 per year is the threshold below which low-paid workers are placed, about 4.6 mln individuals with employment relationships (30 per cent of the total) - Uniemens-INPS

Figure: Share of employees in the private sector earning less than EUR 9 per hour



Source: Own elaboration on INPS-LOSAI data (Bavaro e Raitano, forth.)

- Analysing weekly FTE wages - the best proxy for hourly wages - in 2018, 19.8 % of private employees received less than the amount corresponding to EUR 9 per hour worked
- About 3 million private employees earn less than an amount equivalent to the 'living wage' of EUR 9
- SVIMEZ estimates: workers under 9 € –> 1 million in the South (about 25,1% of employees)

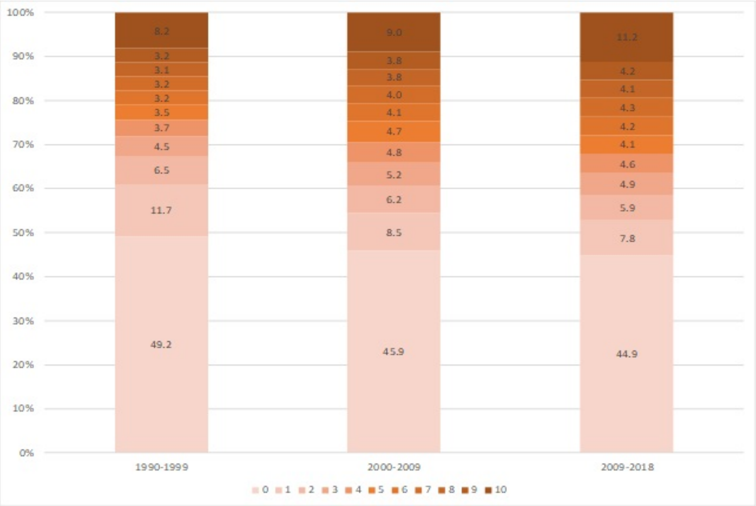
Table: Probability of earning an annual salary of less than 60% of the median annual salary (2018) - (Bavaro and Raitano, 2023)

		Yearly Earnings	Weekly Wages	FTE Weekly Wages
Sex	Male	30.0%	21.3%	6.1%
	Female	32.1%	22.8%	7.8%
Age	15-29	40.0%	28.2%	12.0%
	30-49	28.5%	20.4%	5.3%
	50-65	28.6%	20.2%	5.1%
Area of residence	North	27.7%	19.7%	5.8%
	Centre	30.9%	22.4%	7.0%
	South	37.1%	26.0%	8.5%
Working hour	Full-time	21.4%	7.6%	8.6%
	Part-time	50.5%	49.6%	4.2%
Contract duration	Open-ended	21.8%	19.1%	4.5%
	Fixed-term	53.0%	28.2%	11.4%
Firm size	1-15	38.3%	27.0%	8.9%
	16-100	29.3%	21.1%	7.0%
	$>$100	24.3%	16.9%	4.9%
Industry	Manufacturing	26.8%	18.8%	4.2%
	Energy	22.5%	14.0%	2.7%
	Construction	34.5%	18.4%	5.5%
	Trade	24.6%	16.5%	3.7%
	Transportation	28.1%	18.4%	5.0%
	Hotel/Restaurants	39.8%	28.7%	9.7%
	Finance	17.1%	9.2%	1.4%
	Other Services	33.8%	25.4%	9.7%

Source: Elaborations on INPS-LOSAI (Bavaro and Raitano, 2023)

Low-wage earners forever? Persistence of low wages

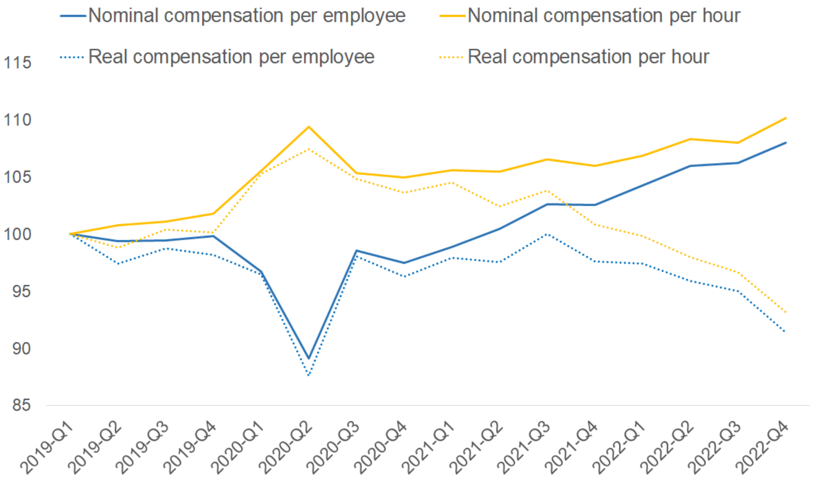
Figure: Distribution of private-sector employees according to the number of years spent with an annual salary below 60 % of the median salary over a 10-year period



Source: Elaborations on INPS-LOSAI data (Bavaro and Raitano, 2023)

The impact of inflation on wages

Figure: Nominal and real compensation of employees (deflated by HICP)

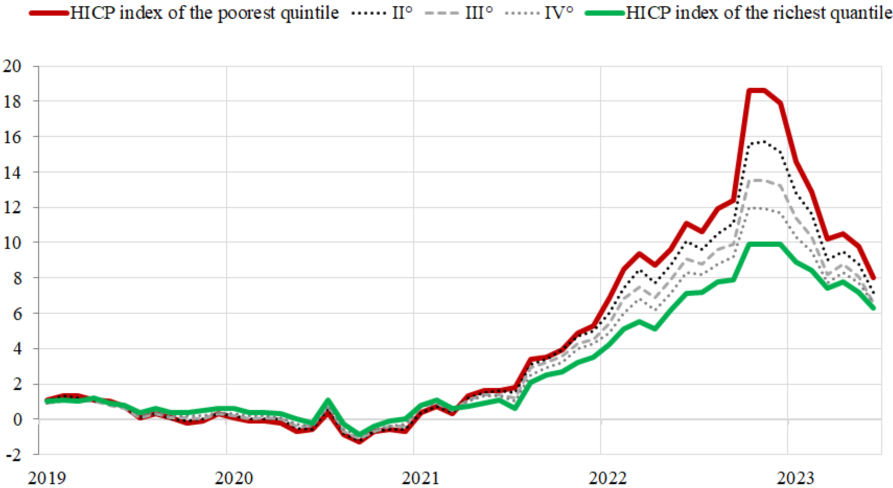


Source: National Accounts, seasonally and calendar adjusted data (Cirillo, Evangelista, Lucchese, 2023)

- Inflation hit in late 2021 and early 2022, just after the reduction of measures taken to mitigate the impact of the crisis triggered by the COVID-19 pandemic

The uneven impact of inflation on income groups

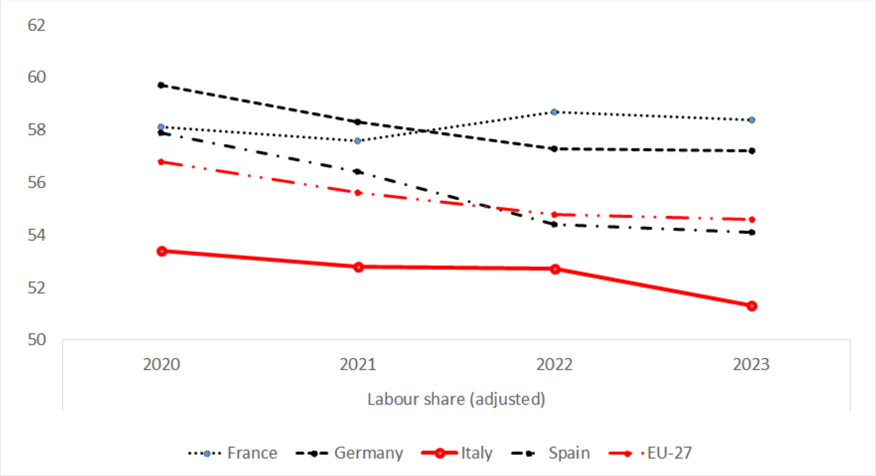
Figure: Inflation in Italy by household expenditure class. Jan 2019-Jun 2023 (HICP index; monthly data, trend percentage changes)



Source: Istat (Cirillo, Evangelista, Lucchese, 2023)

Deterioration of functional distribution of income

Figure: Labour share in the European Union (%, 2020-2023)



Source: European Commission, AMECO database (WSI Report)

Labour share (adjusted) = Compensation of employees per employee, in % of GDP per person employed (at current market prices, person concept, not adjusted for working time)

Discussion

- The three crises - 2008, Covid-19, Russia-Ukraine conflict - revealed, in different ways, Europe and Italy's structural flaws:

  → **deflationary growth model, core-periphery divides, import and technological dependency, fragmentation and weakening of labour**

  → **further weakening of labor and productive structure**

- The Covid-19 crisis and the ensuing GVCs disruption further reshaped hierarchies and productive structures:

  → **peripheries keep loosing grounds while new divides likely to emerge**

- In Italy, long-lasting problems have been exacerbated:

  → **(i) sluggish productivity vis-à-vis Europe core; (ii) growing share of low value added and poorly innovative productive activities; (iii) wage stagnation and enlarging share of precarious work; (iv) deepening of the North-South divide**

Discussion

- **New sources of uncertainty** (e.g., global conflicts, GVCs disruption, inflation, EU's economic policy stance) that may further affect the Italian and EU economy
- **The evolution of the economic policy landscape (at both the EU and the national level) matters:**

  → Reintroduction of fiscal constraints; Interest rates keep rising
- **Industrial policy is back in the mainstream debates**

  → ...no longer a taboo, but the current mainstreaming of industrial policy is a potential threat to the success of industrial policies themselves (Andreoni and Chang, 2019, SCED)

  → Complexity of industrial policy: structural interdependencies, institution building, policy alignment and conflict management

  → Digitisation and green transition redefine industrial ecosystems, geography of production and competition - **risk of new forms of EU divergence?**

  → Europe's and Italy's dependence on critical minerals and rare earths for digital and green technologies

Policy Actions Needed (I)

- **Policies targeting the causes of inflation**

  → Italian gov offered compensation for price increases, with reductions in the taxation of energy goods, corporate support and 'bonuses' for low-incomes households; effective in short-term, but not able to offset the transmission of inflation to the rest of the economy;

- **Wage and Labour protection policies**

  → Loss of purchasing power: bonuses or tax wedge not enough. Need of a price-indexed minimum wage, and interventions for those who do not work and do not have a proper income (citizenship income - RdC);

  → Public subsidies and incentives to businesses could be conditioned on 'virtuous' behavior in renewing labor contracts, wage dynamics, reducing the use of temporary and part-time forms of labor (Decreto Dignità);

Policy Actions Needed (II)

- **Coordinated and consistent macroeconomic and industrial policies in Europe and Italy**

  → NG-EU and NRRPs do not focus on the specific needs emerging after pandemic: public health, vaccine production, etc.

  → Risk of 'lost opportunity': no industrial policy vision in Italian NRRP; no gender equality

  (i) Ineffectiveness of subsidies (high take-up rates with modest territorial spillovers) - 45.2% of firms using incentives for investment say that, in the absence of of them, would have invested for the same amount

  (ii) Formal gender equality: 96% of the 34377 tenders on NRRP do not foresee any reward measures for gender equality, while in 68% of cases there are no obligations for a gender/youth quota of new hirings . In 5 out of 6 missions there are rates of application of gender equality award measures below 10% (ANAC data)

  (iii) PNRR remodulation: diverts into subsidies to enterprises the majority of investment spending, automatic and non-selective access to tax cut (measure 5.0)

- **Campaigning against the law concerning 'differentiated autonomy' of Regions**

  → "the essential levels of services to be guaranteed throughout the national territory (LEP)" are at risk since regions can retain tax revenues, which would no longer be distributed on a national basis according to collective needs.

Thank you! Grazie!

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